

CITY OF STOCKTON

SINGLE AUDIT REPORTS

FOR THE YEAR ENDED JUNE 30, 2002

CITY OF STOCKTON

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City of Stockton
Stockton, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Stockton, California (City), as of and for the year ended June 30, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Stockton, California, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments – Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2002 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, schedules of defined benefit pension plans funded status and schedule of revenues, expenditures and changes in fund balance – budget and actual – on a budgetary basis – General Fund on pages 3 through 12 and pages 77 through 81, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias, Meiri & Company LLP

Certified Public Accountants

Sacramento, California
November 15, 2002

Management's Discussion and Analysis

The following is presented as discussion and analysis of the financial performance of the City of Stockton (City) for the fiscal year ended June 30, 2002. Please consider the information presented here in conjunction with additional information furnished in the Letter of Transmittal, which can be found at the beginning of the Comprehensive Annual Financial Report. All dollar amounts are expressed in thousands unless otherwise indicated.

FINANCIAL HIGHLIGHTS

- The assets of the City of Stockton exceeded its liabilities at the close of the 2002 fiscal year by \$683,572 (net assets). Of this amount, \$132,352 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors, \$126,990 is restricted for specific purposes (restricted net assets), and \$424,230 is invested in capital assets, net of related debt.
- The City's total net assets increased by \$68,458.
- The City's long-term debt related to governmental funds increased by \$25,647 (12.7%) at fiscal year end. The key factor in this increase was the issuance of \$30,880 of Community Facilities District Special Tax Bonds relating to three different developments within the City.
- As of June 30, 2002, the City's governmental funds (General Fund, special revenue funds, debt service funds, capital projects funds, and the Permanent Fund) reported combined ending fund balances of \$224,202. \$105,297 is unreserved fund balance or 47% of the total fund balance.
- At the end of the 2002 fiscal year, the General Fund unreserved fund balance of \$8,642 was designated for the following purposes: \$1,690 for termination pay, \$1,170 for uncollectible receivables, \$2,470 for infrastructure and \$3,312 for economic uncertainties. In total this represented 6% of General Fund expenditures of \$141,511 during the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. Other supplementary information is included in addition to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The government-wide financial statements include the statement of net assets and the statement of activities. Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public safety, public works, parks and recreation, library, and general government services. The business-type activities of the City include water utility, sanitary wastewater utility, stormwater utility, solid waste operations, golf courses, and the parking district.

The government-wide financial statements include the governmental activities of the Redevelopment Agency and the Stockton Public Financing Authority. Although legally separate from the City, these component units are blended with the primary government because of their governance or financial relationships to the City.

The **Statement of Net Assets** presents information on all City assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets and liabilities may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The **Statement of Activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The government-wide financial statements can be found on pages 13-15 of this report.

Fund Financial Statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: **Governmental Funds, Proprietary Funds, and Fiduciary Funds.**

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds financial statements focus on how cash and other financial assets can readily be converted to available resources, as well as the balances left at year-end that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

The City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects, and permanent funds). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Public Facilities Impact Fees Fund, and Capital Improvement Fund, which are considered to be major funds. Data from the remaining nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The basic governmental funds financial statements can be found on pages 20-29 of this report.

Proprietary Funds. Proprietary funds are generally used to account for activities for which the City charges a fee to either its external or internal customers. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise Funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Water Utility, Sanitary Wastewater Utility, and Stormwater Utility, which are considered major funds. Data for the remaining nonmajor proprietary funds are combined into a single, aggregated presentation.
- **Internal Service Funds** are used to report activities that provide goods and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, its information technology systems, radio and other equipment, and the City's self insurance programs. Because these services predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregate presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 30-37 of this report.

Fiduciary Fund. The fiduciary fund is used to account for resources held for the benefit of parties outside the government. The fiduciary fund is not reflected in the government-wide financial statements because the resources of the fund are not available to support the City's own programs. As the City's only fiduciary fund, the Agency Fund is custodial in nature and, therefore, the accounting used does not involve the measurement of the results of operations. The basic fiduciary fund financial statement can be found on page 38 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39-76 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report presents the following required supplementary information: pension trend data for the City's defined benefit pension plan and budgetary comparisons for the City's General Fund. Required supplementary information can be found on pages 77-81 of this report.

Combining Statements. The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, and internal service funds are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the first year that the City has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments. Because this reporting model significantly changes both the recording and presentation of financial data, the City has not restated prior fiscal years for the purpose of providing comparative information for the MD&A. In future years, when prior year information is available, a comparative analysis of government-wide data will be included in this report.

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$683,572 at the close of the current fiscal year.

The largest portion of the City's net assets (62%) reflects its investment of \$424,230 in capital assets (e.g., land and easements, buildings and improvements, infrastructure, and equipment), less any related outstanding debt used to acquire these assets. The City uses these capital assets to provide services to citizens; consequently, these are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be liquidated for these liabilities.

City of Stockton's Net Assets
June 30, 2002

	Governmental Activities	Business-type Activities	Total
Assets:			
Current and other assets	\$ 276,029	\$ 129,152	\$ 405,181
Capital assets	352,408	347,822	700,230
Total assets	<u>628,437</u>	<u>476,974</u>	<u>1,105,411</u>
Liabilities:			
Long-term liabilities outstanding	260,064	129,405	389,469
Other liabilities	26,298	6,072	32,370
Total liabilities	<u>286,362</u>	<u>135,477</u>	<u>421,839</u>
Net assets:			
Invested in capital assets, net of related debt	202,832	221,398	424,230
Restricted	109,786	17,204	126,990
Unrestricted	29,457	102,895	132,352
Total net assets	<u>\$ 342,075</u>	<u>\$ 341,497</u>	<u>\$ 683,572</u>

An additional portion of the City's net assets, \$126,990 (19%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$132,352 (19%), may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole. This is also the case in both the governmental activities as well as business-type activities.

**City of Stockton's Change in Net Assets
For the Year Ended June 30, 2002**

	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues:			
Charges for service	\$ 43,488	\$ 53,976	\$ 97,464
Operating grants and contributions	8,950	-	8,950
Capital grants and contributions	27,654	15,824	43,478
General revenues:			
Property taxes	20,742	-	20,742
Utility taxes	31,462	-	31,462
Sales and use taxes	35,812	-	35,812
Other taxes	33,226	580	33,806
Grants and contributions not restricted to specific programs	15,454	6,974	22,428
Investment earnings	7,944	5,864	13,808
Gain on sale of capital assets	99	-	99
Other	4,047	-	4,047
Total revenues	<u>228,878</u>	<u>83,218</u>	<u>312,096</u>
Expenses			
General government	16,844	-	16,844
Public safety	106,062	-	106,062
Public works	30,895	-	30,895
Library	11,475	-	11,475
Parks and recreation	16,203	-	16,203
Interest and fiscal charges	11,186	-	11,186
Water utility	-	13,742	13,742
Sanitary wastewater utility	-	25,743	25,743
Stormwater utility	-	4,612	4,612
Other	-	6,876	6,876
Total expenses	<u>192,665</u>	<u>50,973</u>	<u>243,638</u>
Increase in net assets before Transfers	36,213	32,245	68,458
Transfers	5,627	(5,627)	-
Increase in net assets	<u>41,840</u>	<u>26,618</u>	<u>68,458</u>
Net assets at beginning of year	300,235	314,879	615,114
Net assets at end of year	<u>\$ 342,075</u>	<u>\$ 341,497</u>	<u>\$ 683,572</u>

Governmental Activities. Governmental activities increased the City's net assets by \$41,840 thereby accounting for 61% of the total growth in net assets of the City. The key elements of this increase are shown in the table on the previous page. As stated earlier, the City has not restated prior fiscal years, therefore comparative analysis has not been presented, as data for the prior year is not available.

Business-type activities. Business-type activities increased the City's net assets by \$26,618 or approximately 39% of the total growth in the City's net assets. This reflects a decrease of approximately \$5.4 million when compared with the previous year's increase in net assets of \$32,384. The key factor in this increase is as follows:

- In the previous year, the changes in net assets reflected a one-time increase of approximately \$5.7 million, which resulted from the net of the proceeds from the sale of the landfill and the subsequent transfer of the majority of these proceeds to various other City funds.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, special revenue funds, debt service funds, capital projects funds, and the Permanent Fund.

As of June 30, 2002, the City's governmental funds reported combined ending fund balances of \$224,202, an increase of \$29,808 in comparison with the prior fiscal year.

Revenues for governmental functions overall totaled \$231,226 in fiscal year 2002, which represents an increase of \$2,193 in comparison with the prior fiscal year. Expenditures for governmental functions, totaling \$237,072, increased by approximately 6% from the prior fiscal year. In the fiscal year ended June 30, 2002, expenditures for governmental functions exceeded revenues by \$5,846, or approximately 2.5%.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$8,642 and has been designated as follows: \$1,690 for termination pay, \$1,170 for uncollectible receivables, \$2,470 for infrastructure, and \$3,312 for economic uncertainties. As a measure of the General Fund's liquidity, it may be useful to compare the unreserved fund balance designated for economic uncertainties to total fund expenditures. Unreserved fund balance designated for economic uncertainties represents approximately 2% of total General Fund expenditures of \$141,511. The total fund balance for the General Fund is \$15,069, which

consists of the designated unreserved fund balances of \$8,642, as mentioned above, and reserved fund balance in the amount of \$6,427.

Although revenues exceeded expenditures in the City's General Fund, operating transfers out totaling \$18,851 for capital improvements, infrastructure improvements, infrastructure reinvestment and the City / County Library resulted in a decrease of \$7,734 of the fund balance in the General Fund.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the fiscal year, the unrestricted net assets for the Water Utility were \$24,525, the Sanitary Wastewater Utility \$70,121, and the Stormwater Utility \$8,375. The Solid Waste, Golf Courses, and Central Parking District are combined for financial reporting purposes, and together have a deficit in unrestricted net assets of \$126. The internal service funds also have a deficit in unrestricted net assets of \$6,471.

The total growth in net assets for the proprietary funds was \$26,618. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an increase in appropriations of \$4,060 and can be briefly summarized as follows:

- The majority of the increase can be attributed to increases in appropriations relating to public safety of \$1,436, general government activities of \$1,113, including \$600 to implement consolidated utility billing and outsourcing for billing services, parks & recreation of \$1,067, and public works of \$407. Of these increases, \$181 was budgeted from federal grants & subsidies, \$1,895 was budgeted from normal operating revenues, and the balance was budgeted from existing fund balances.

During the year, actual revenues exceeded budgetary estimates by \$8,309. The majority of the revenue that exceeded budgetary amounts is an additional \$2,418 in taxes, \$2,183 in licenses and permits, \$2,196 in charges for services, and \$1,599 in refunds & reimbursements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2002 amounts to \$700,230. This investment in capital assets includes land and easements, buildings and improvements, machinery and equipment, park facilities, roads, street, and bridges. The total increase in the City's capital assets for the current fiscal year was 8.4% (a 12.3% increase for governmental activities and a 4.7% increase for business-type activities) as shown in the table below.

Changes in Capital Assets, Net of Depreciation

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Land	\$ 22,243	\$ 22,243	\$ 7,289	\$ 6,225	\$ 29,532	\$ 28,468
Buildings & Improvements	14,472	14,642	240,081	214,713	254,553	229,355
Machinery & Equipment	12,560	11,629	2,527	2,454	15,087	14,083
Infrastructure	153,696	134,663	-	-	153,696	134,663
Construction in Progress	149,437	130,503	97,925	108,728	247,362	239,231
Total	\$ 352,408	\$ 313,680	\$ 347,822	332,120	\$ 700,230	\$ 645,800

Additional information on the City's capital assets can be found in Note 5 on pages 55-56 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$325,417. Of this amount, \$119,000 is revenue bonds and certificates of participation backed by the City's Water and Wastewater Utilities and \$6,072 is Mello-Roos bonds and other obligations of the Central Parking District. The remainder includes \$109,362 of revenue bonds, \$53,232 of Mello-Roos bonds, and \$23,086 of special assessment bonds for various Community Facilities Districts (CFD) and Local Improvement Districts. In addition, there is a certificate of participation with a balance of \$14,665 for the City's Essential Services Building / Parking Structure.

During fiscal year 2002, the City's net bonded indebtedness increased by \$18,556. The key factor was the issuance of \$20,983 for the Spanos Park West CFD, \$6,130 for the Arch Road East CFD, and \$3,163 for the final phase of the Weston Ranch CFD. In addition, the business-type activities issued \$13,628 of refunding revenue bonds for the Water Utility and \$5,778 of Mello-Roos bonds for the Central Parking District in order to acquire outstanding debt. These bond issuances totaling \$49,682 are offset by \$31,126 of bond calls and principal payments made during the fiscal year. Additional information on the City's long-term debt can be found in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for the City as of June 2002 was 11.0%. This is an increase of 1.4% from the June 2001 rate of 9.6%. The local unemployment rate is 4.5% higher than the State unemployment rate of 6.5%, however, the difference between the local and state rates has remained constant during the fiscal year.
- The current year has been a year of economic uncertainty. The events of September 11, 2001, the local, state and national recession, and local ballot initiatives each had an effect on the City's revenue. The City's revenue growth slowed greatly due to the recession, and 2002-03 revenues are expected to be fairly static.
- Sales tax revenue is expected to increase at a slower pace because of a reduction in consumer confidence caused by the slowing economy.
- A large revenue uncertainty still remains on the horizon. The State's current projection of its two-year budget shortfall is approximately \$21 billion. One of the State's traditional ways of solving its budget crisis is to take local revenue for the State.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Administrative Services Department of the City of Stockton at City Hall, 425 North El Dorado Street, Stockton, CA 95202.

CITY OF STOCKTON

STATEMENT OF NET ASSETS

JUNE 30, 2002

(Dollar amounts in thousands)

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 200,195	\$ 121,468	\$ 321,663
Interest receivable	1,540	1,403	2,943
Taxes receivable	719	-	719
Accounts receivable, net	12,395	5,416	17,811
Internal balances	1,924	(1,924)	-
Due from other governments	21,715	-	21,715
Inventory of supplies	240	1,121	1,361
Deposits	38	-	38
Advances to property owners	36,393	-	36,393
Property held for resale	353	-	353
Loans receivable	-	39	39
Deferred charges	517	1,629	2,146
Capital assets, net:			
Nondepreciable	171,680	105,214	276,894
Depreciable, net	180,728	242,608	423,336
Total assets	628,437	476,974	1,105,411
LIABILITIES			
Accounts payable and accrued expenses	10,324	2,922	13,246
Accrued payroll and benefits	3,360	-	3,360
Accrued interest	4,158	2,142	6,300
Due to other governments	631	175	806
Deposits and other liabilities	2,117	811	2,928
Deferred revenue	5,708	22	5,730
Long-term liabilities:			
Due within one year	24,364	2,586	26,950
Due in more than one year	235,700	126,819	362,519
Total liabilities	286,362	135,477	421,839
NET ASSETS			
Invested in capital assets, net of related debt	202,832	221,398	424,230
Restricted for:			
Capital projects	24,506	-	24,506
Debt service	16,684	17,204	33,888
Other purposes	68,596	-	68,596
Unrestricted	29,457	102,895	132,352
Total net assets	\$ 342,075	\$ 341,497	\$ 683,572

The notes to the financial statements are an integral part of this statement.

CITY OF STOCKTON

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government	\$ 16,844	\$ 6,429	\$ 183	\$ 233
Public safety	106,062	29,272	3,315	123
Public works	30,895	5,675	44	25,846
Library	11,475	387	4,350	-
Parks and recreation	16,203	1,725	1,058	1,452
Interest and fiscal charges	11,186	-	-	-
Total governmental activities	<u>192,665</u>	<u>43,488</u>	<u>8,950</u>	<u>27,654</u>
Business-type activities:				
Water utility	13,742	15,720	-	3,138
Sanitary wastewater utility	25,743	27,298	-	10,503
Stormwater utility	4,612	4,288	-	2,183
Other	6,876	6,670	-	-
Total business-type activities	<u>50,973</u>	<u>53,976</u>	<u>-</u>	<u>15,824</u>
Total	<u>\$ 243,638</u>	<u>\$ 97,464</u>	<u>\$ 8,950</u>	<u>\$ 43,478</u>

General revenues:

Taxes:

Property
Utility
Sales and use
Other

Grants and contributions not restricted to specific programs

Investment earnings

Miscellaneous

Gain on sale of capital assets

Transfers

Total general revenues and transfers

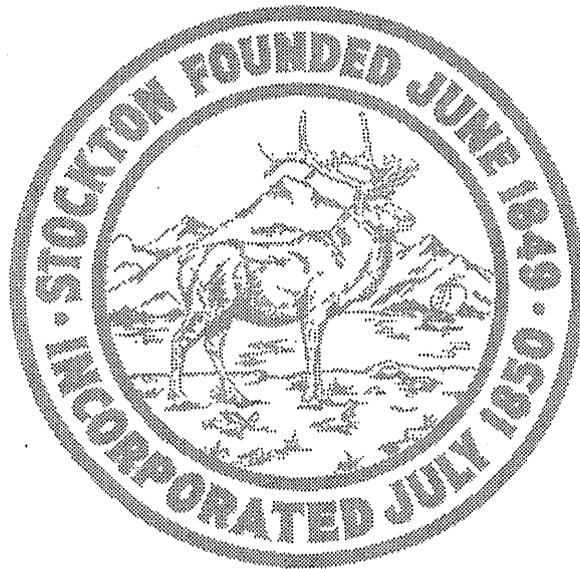
Change in net assets

Net assets, beginning of year, as restated

Net assets, end of year

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (9,999)		\$ (9,999)
(73,352)		(73,352)
670		670
(6,738)		(6,738)
(11,968)		(11,968)
(11,186)		(11,186)
<u>(112,573)</u>		<u>(112,573)</u>
	\$ 5,116	5,116
	12,058	12,058
	1,859	1,859
	<u>(206)</u>	<u>(206)</u>
	<u>18,827</u>	<u>18,827</u>
<u>(112,573)</u>	<u>18,827</u>	<u>(93,746)</u>
20,742	-	20,742
31,462	-	31,462
35,812	-	35,812
33,226	580	33,806
15,454	6,974	22,428
7,944	5,864	13,808
4,047	-	4,047
99	-	99
<u>5,627</u>	<u>(5,627)</u>	<u>-</u>
<u>154,413</u>	<u>7,791</u>	<u>162,204</u>
41,840	26,618	68,458
<u>300,235</u>	<u>314,879</u>	<u>615,114</u>
<u>\$ 342,075</u>	<u>\$ 341,497</u>	<u>\$ 683,572</u>



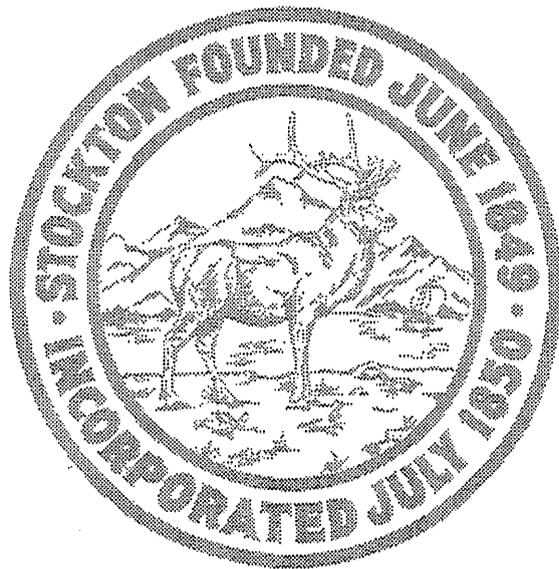
FUND FINANCIAL STATEMENTS

Governmental Fund Types

Governmental funds consist of the General Fund, special revenue funds, debt service funds and capital projects funds.

Major Governmental Funds include:

- **General Fund**
The fund used to account for resources that are not required legally or by sound financial management to be accounted for in another fund.
- **Public Facilities Impact Fees**
To account for the collection of and expenditure of fees imposed as a condition of new development within the City. Impact fees have been established for each of the following types of public facilities:
 - Traffic signals
 - Street improvements
 - Community recreation centers
 - City office space
 - Fire stations
 - Libraries
 - Police stations
 - Parkland, street tree & street signs
 - Street light in-lieu
 - Air quality mitigation
 - Habitat & open space conservation
 - Infrastructure Financing District 92-1 - administration
 - Public facilities fees - administration
- **Capital Improvement**
To account for the acquisition, construction and improvement of capital facilities financed by grants and operating transfers from other City funds.



Proprietary Fund Types

Proprietary funds consist of the enterprise funds and the internal service funds.

Major enterprise funds include:

- **Water Utility**
To account for activities associated with the acquisition or construction of water facilities, production, distribution and transmission of potable water to users.
- **Sanitary Wastewater Utility**
To account for activities associated with the acquisition or construction, and operation and maintenance of wastewater facilities for drainage, treatment, and disposal of sanitary wastewater.
- **Stormwater Utility**
To account for activities associated with the acquisition or construction, and operation and maintenance of stormwater facilities for drainage and disposal of stormwater wastewater.

Fiduciary Fund Type

The only fiduciary fund is the:

- **Agency fund**
To account for assets held in an agency capacity for parties outside the City. The resources of this fund cannot be used to support the City's own programs.

CITY OF STOCKTON

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2002

(Dollar amounts in thousands)

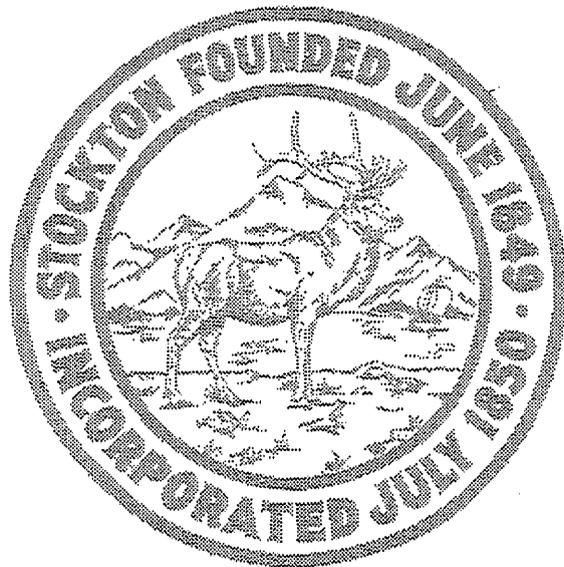
	General	Public Facilities Impact Fees	Capital Improvement
ASSETS			
Cash and cash equivalents	\$ 7,221	\$ 48,461	\$ 25,595
Cash and cash equivalents with fiscal agents	-	-	209
Receivables:			
Interest	346	513	220
Taxes and special assessments	41	-	-
Accounts and other receivables	13,331	1,358	28
Allowance for uncollectibles	(2,854)	-	-
Due from other funds	468	-	300
Due from other governments	3,444	11	5,470
Inventory of supplies	240	-	-
Deposits	-	-	-
Advances to other funds	1,283	-	14,306
Advances to property owners	-	406	-
Property held for resale	-	-	-
Total assets	<u>\$ 23,520</u>	<u>\$ 50,749</u>	<u>\$ 46,128</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 1,798	\$ 1,052	\$ 2,395
Accrued payroll and benefits	3,360	-	-
Due to other funds	-	-	-
Due to other governments	242	-	30
Deposits and other liabilities	78	-	-
Deferred revenue	2,973	1,010	1,509
Advances from other funds	-	5,516	-
Total liabilities	<u>8,451</u>	<u>7,578</u>	<u>3,934</u>
FUND BALANCES:			
Reserved for:			
Encumbrances	1,969	333	2,685
Advances	1,283	406	14,306
Debt service	-	-	-
Loan commitment	2,277	-	-
Low- and moderate-income housing	-	-	-
Endowments	-	-	-
Other items	898	399	1,406
Unreserved, reported in:			
General Fund:			
Designated for termination pay	1,690	-	-
Designated for uncollectible receivables	1,170	-	-
Designated for infrastructure	2,470	-	-
Designated for economic uncertainties	3,312	-	-
Special revenue funds:			
Designated for termination pay	-	-	-
Undesignated	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	42,033	23,797
Permanent fund	-	-	-
Total fund balances	<u>15,069</u>	<u>43,171</u>	<u>42,194</u>
Total liabilities and fund balances	<u>\$ 23,520</u>	<u>\$ 50,749</u>	<u>\$ 46,128</u>

The notes to the financial statements are an integral part of this statement.

Other Governmental		Total Governmental	
\$	68,610	\$	149,887
	23,374		23,583
	461		1,540
	678		719
	332		15,049
	-		(2,854)
	-		768
	12,466		21,391
	-		240
	38		38
	15,552		31,141
	35,987		36,393
	353		353
<u>\$</u>	<u>157,851</u>	<u>\$</u>	<u>278,248</u>

\$	3,348	\$	8,593
	-		3,360
	768		768
	359		631
	2,039		2,117
	3,868		9,360
	23,701		29,217
<u>\$</u>	<u>34,083</u>	<u>\$</u>	<u>54,046</u>

	2,159		7,146
	51,539		67,534
	34,854		34,854
	-		2,277
	1,062		1,062
	1,383		1,383
	1,946		4,649
	-		1,690
	-		1,170
	-		2,470
	-		3,312
	132		132
	18,043		18,043
	(22)		(22)
	12,414		78,244
	258		258
<u>\$</u>	<u>157,851</u>	<u>\$</u>	<u>278,248</u>



CITY OF STOCKTON

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS JUNE 30, 2002

(Dollar amounts in thousands)

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances - total governmental	\$ 224,202
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	
Nondepreciable capital assets	171,680
Depreciable capital assets, net	168,418
Internal service funds are used by management to charge the costs of central garage, computer equipment, radio equipment, other equipment, general insurance, workers' compensation insurance, health benefits insurance, and other insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	5,839
Various long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds as follows:	
Compensated absences	(18,989)
Bonds payable and other long-term debt	(209,621)
Unamortized bond discounts	596
Accrued interest	(4,158)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are:	
deferred in the governmental funds, or	3,652
not recorded in the governmental funds.	<u>456</u>
Net assets of governmental activities	<u>\$ 342,075</u>

The notes to the financial statements are an integral part of this statement.

CITY OF STOCKTON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

	General	Public Facilities Impact Fees	Capital Improvement
REVENUES:			
Taxes:			
Property	\$ 18,992	\$ -	\$ -
Utility	31,462	-	-
Sales and use	32,489	-	-
Other	14,959	-	17
Licenses and permits	5,493	-	-
Federal grants and subsidies	121	-	233
Other governmental	16,006	-	6,714
Charges for services	17,103	13,263	-
Fines and forfeitures	1,549	-	3
Use of money and property	601	161	706
Investment income:			
Interest income	1,295	2,147	1,186
Net increase in fair value of investments	166	215	86
Refunds and reimbursements	2,309	-	458
Miscellaneous	5,432	-	672
Total revenues	147,977	15,786	10,075
EXPENDITURES:			
Current:			
General government	15,066	-	-
Public safety	100,770	-	-
Public works	13,347	-	-
Library	-	-	-
Parks and recreation	12,295	-	-
Capital outlay	33	14,308	15,288
Debt service:			
Principal retirement	-	-	-
Cost of issuance	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	141,511	14,308	15,288
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	6,466	1,478	(5,213)

The notes to the financial statements are an integral part of this statement.

Other Governmental	Total Governmental
\$ 1,750	\$ 20,742
-	31,462
3,323	35,812
18,456	33,432
-	5,493
8,834	9,188
19,530	42,250
1,751	32,117
-	1,552
338	1,806
2,058	6,686
248	715
543	3,310
557	6,661
<u>57,388</u>	<u>231,226</u>
1,116	16,182
1,856	102,626
1,859	15,206
10,403	10,403
1,138	13,433
31,023	60,652
7,290	7,290
466	466
<u>10,814</u>	<u>10,814</u>
<u>65,965</u>	<u>237,072</u>
<u>(8,577)</u>	<u>(5,846)</u>

(Continued)

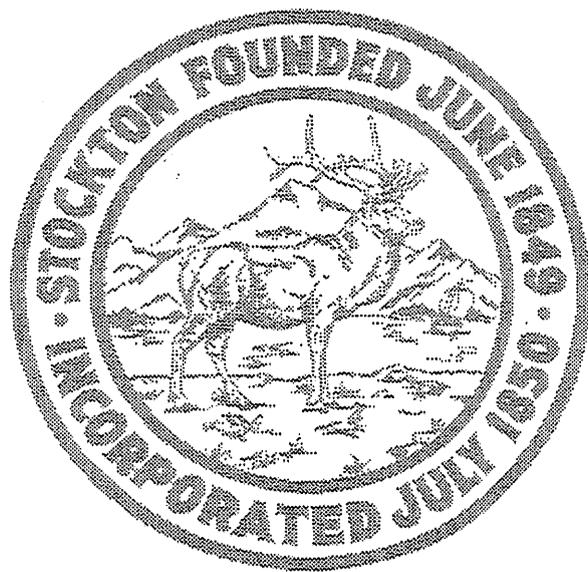
CITY OF STOCKTON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

	General	Public Facilities Impact Fees	Capital Improvement
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>6,466</u>	<u>1,478</u>	<u>(5,213)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	4,651	-	11,811
Transfers out	(18,851)	(140)	(707)
Proceeds of long-term debt	-	-	-
Discounts	-	-	-
Total other financing sources (uses)	<u>(14,200)</u>	<u>(140)</u>	<u>11,104</u>
NET CHANGE IN FUND BALANCES	<u>(7,734)</u>	<u>1,338</u>	<u>5,891</u>
FUND BALANCES, BEGINNING OF YEAR, AS RESTATED	<u>22,803</u>	<u>41,833</u>	<u>36,303</u>
FUND BALANCES, END OF YEAR	<u>\$ 15,069</u>	<u>\$ 43,171</u>	<u>\$ 42,194</u>

The notes to the financial statements are an integral part of this statement.

Other Governmental	Total Governmental
<u>(8,577)</u>	<u>(5,846)</u>
22,498	38,960
(15,950)	(35,648)
32,946	32,946
<u>(604)</u>	<u>(604)</u>
<u>38,890</u>	<u>35,654</u>
30,313	29,808
<u>93,455</u>	<u>194,394</u>
<u>\$ 123,768</u>	<u>\$ 224,202</u>



CITY OF STOCKTON

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental	\$ 29,808
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. Capital outlays and depreciation expense are as follows:	
Capitalized capital outlays	42,891
Depreciation expense	(5,061)
Long-term debt proceeds, net of bond discounts, provide current financial resources to governmental funds, but issuing debt proceeds increases long-term liabilities in the statement of net assets. Repayment of principal and costs of issuance are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets, and the costs of issuance increase deferred changes in the statement of net assets. Long-term debt proceeds, bond discounts, repayment of principal, and costs of issuance are as follows:	
Long-term debt proceeds	(32,946)
Bond discounts	604
Repayment of principal	7,290
Costs of issuance	466
Internal service funds are used by management to charge the costs of certain activities, such as central garage, equipment, and insurance, to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.	(380)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	
Deferred revenue	127
Other expenses in the statement of activities that do not use current financial resources are not reported as expenditures in the governmental funds.	
Change in compensated absences	(587)
Amortization of bond discounts and costs of issuance	(18)
Change in accrued interest	(354)
Change in net assets of governmental activities	<u>\$ 41,840</u>

The notes to the financial statements are an integral part of this statement.

CITY OF STOCKTON

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2002

(Dollar amounts in thousands)

	Enterprise		
	Water Utility	Sanitary Wastewater Utility	Stormwater Utility
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 24,080	\$ 69,545	\$ 8,403
Cash and cash equivalents with fiscal agents	-	225	-
Receivables:			
Interest	260	725	91
Accounts and other receivables	1,810	4,510	697
Allowance for uncollectibles	(203)	(1,517)	(147)
Due from other governments	-	-	-
Inventory of supplies	-	1,121	-
Total current assets	<u>25,947</u>	<u>74,609</u>	<u>9,044</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	-	-	-
Cash and investments with fiscal agents	-	16,829	-
Interest receivable	-	308	-
Loans receivable	10	29	-
Deferred charges	187	1,338	-
Capital assets, net:			
Nondepreciable	4,359	95,167	459
Depreciable, net	53,128	145,519	33,558
Total noncurrent assets	<u>57,684</u>	<u>259,190</u>	<u>34,017</u>
Total assets	<u>83,631</u>	<u>333,799</u>	<u>43,061</u>
LIABILITIES			
Current liabilities:			
Accounts payable	259	2,412	72
Due to other governments	175	-	-
Deposits and other liabilities	698	15	-
Accrued interest	109	1,874	20
Deferred revenue	1	21	-
Compensated absences - current	136	539	38
Self-insurance claims and judgments - current	-	-	-
Other long-term debt - current	(20)	1,575	152
Total current liabilities	<u>1,358</u>	<u>6,436</u>	<u>282</u>
Noncurrent liabilities:			
Advances from other funds	-	-	-
Compensated absences - long-term	246	1,009	54
Self-insurance claims and judgments - long-term	-	-	-
Advances from other governments	986	-	485
Certificates of participation	-	103,791	-
Bonds payable	13,665	-	-
Total noncurrent liabilities	<u>14,897</u>	<u>104,800</u>	<u>539</u>
Total liabilities	<u>16,255</u>	<u>111,236</u>	<u>821</u>
NET ASSETS			
Invested in capital assets, net of related debt	42,851	135,305	33,865
Restricted for debt service	-	17,137	-
Unrestricted	24,525	70,121	8,375
Total net assets	<u>\$ 67,376</u>	<u>\$ 222,563</u>	<u>\$ 42,240</u>

The notes to the financial statements are an integral part of this statement.

Other	Total	Internal Service
\$ 2,168	\$ 104,196	\$ 26,725
-	225	-
19	1,095	-
382	7,399	346
(116)	(1,983)	(146)
-	-	324
-	1,121	-
<u>2,453</u>	<u>112,053</u>	<u>27,249</u>
158	158	-
60	16,889	-
-	308	-
-	39	-
104	1,629	61
-	-	-
5,229	105,214	-
<u>10,403</u>	<u>242,608</u>	<u>12,310</u>
<u>15,954</u>	<u>366,845</u>	<u>12,371</u>
<u>18,407</u>	<u>478,898</u>	<u>39,620</u>
179	2,922	1,731
-	175	-
98	811	-
139	2,142	-
-	22	-
157	870	319
-	-	8,177
9	1,716	-
<u>582</u>	<u>8,658</u>	<u>10,227</u>
1,924	1,924	-
520	1,829	553
-	-	23,001
-	1,471	-
-	103,791	-
6,063	19,728	-
<u>8,507</u>	<u>128,743</u>	<u>23,554</u>
<u>9,089</u>	<u>137,401</u>	<u>33,781</u>
9,377	221,398	12,310
67	17,204	-
(126)	102,895	(6,471)
<u>\$ 9,318</u>	<u>\$ 341,497</u>	<u>\$ 5,839</u>

CITY OF STOCKTON

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

	Enterprise		
	Water Utility	Sanitary Wastewater Utility	Stormwater Utility
OPERATING REVENUES:			
Charges for services	\$ 15,491	\$ 26,870	\$ 4,124
Miscellaneous	212	390	164
Total operating revenues	15,703	27,260	4,288
OPERATING EXPENSES:			
Operation and maintenance	4,928	15,478	1,970
General and administrative	2,960	5,381	1,568
Depreciation and amortization	1,318	4,144	1,074
Purchased water	3,407	-	-
Total operating expenses	12,613	25,003	4,612
OPERATING INCOME (LOSS)	3,090	2,257	(324)
NON-OPERATING REVENUES (EXPENSES):			
Taxes	-	-	-
Federal grants and subsidies	-	-	-
Other governmental	-	6,974	-
Investment income:			
Interest income	1,138	3,771	384
Net increase in fair value of investments	102	282	36
Gain (loss) from disposal of property	-	-	-
Interest expense and fiscal charges	(1,129)	(740)	-
Other non-operating revenues	17	38	-
Total non-operating revenues (expenses)	128	10,325	420
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	3,218	12,582	96
Capital contributions	3,138	10,503	2,183
Transfers in	-	-	-
Transfers out	(816)	(1,167)	(330)
CHANGE IN NET ASSETS	5,540	21,918	1,949
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	61,836	200,645	40,291
NET ASSETS, END OF YEAR	\$ 67,376	\$ 222,563	\$ 42,240

The notes to the financial statements are an integral part of this statement.

Other	Total	Internal Service
\$ 6,125	\$ 52,610	\$ 58,990
545	1,311	-
<u>6,670</u>	<u>53,921</u>	<u>58,990</u>
6,072	28,448	57,429
-	9,909	3,822
399	6,935	2,626
-	3,407	-
<u>6,471</u>	<u>48,699</u>	<u>63,877</u>
199	5,222	(4,887)
580	580	-
-	-	615
-	6,974	6
147	5,440	498
4	424	45
(143)	(143)	99
(262)	(2,131)	-
-	55	929
<u>326</u>	<u>11,199</u>	<u>2,192</u>
525	16,421	(2,695)
-	15,824	-
598	598	5,615
(3,912)	(6,225)	(3,300)
(2,789)	26,618	(380)
<u>12,107</u>	<u>314,879</u>	<u>6,219</u>
<u>\$ 9,318</u>	<u>\$ 341,497</u>	<u>\$ 5,839</u>

CITY OF STOCKTON

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

	Enterprise		
	Water Utility	Sanitary Wastewater Utility	Stormwater Utility
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 15,432	\$ 26,954	\$ 3,861
Receipts from interfund service providers	-	40	100
Payments to suppliers	(9,186)	(12,270)	(2,256)
Payments to employees	(2,406)	(7,138)	(1,182)
Payments for interfund services used	(134)	(718)	(69)
Net cash provided by operating activities	<u>3,706</u>	<u>6,527</u>	<u>454</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	-	-	-
Transfers out	(816)	(1,167)	(330)
Advances from other funds	-	-	-
Other non-operating revenues	17	38	-
Proceeds from taxes	183	15	-
Other governmental	-	6,974	-
Federal grants and subsidies	-	-	-
Net cash provided (used) by noncapital financing activities	<u>(616)</u>	<u>5,860</u>	<u>(330)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from sale of capital assets	-	-	-
Proceeds from capital debt	13,793	-	-
Principal paid on capital debt	(15,990)	(1,855)	-
Purchases of capital assets	(4,037)	(14,962)	(2,183)
Interest paid on capital debt	(1,090)	(425)	(4)
Capital contributions	3,138	10,503	2,183
Net cash used by capital and related financing activities	<u>(4,186)</u>	<u>(6,739)</u>	<u>(4)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment earnings	<u>1,300</u>	<u>4,090</u>	<u>436</u>
Net cash provided by investing activities	<u>1,300</u>	<u>4,090</u>	<u>436</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	204	9,738	556
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>23,876</u>	<u>61,172</u>	<u>7,847</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 24,080</u></u>	<u><u>\$ 70,910</u></u>	<u><u>\$ 8,403</u></u>

The notes to the financial statements are an integral part of this statement.

Other	Total	Internal Service
\$ 6,689	\$ 52,936	\$ 1,023
-	140	63,104
(1,932)	(25,644)	(53,115)
(4,142)	(14,868)	(9,301)
(48)	(969)	-
<u>567</u>	<u>11,254</u>	<u>1,711</u>
598	598	5,615
(3,912)	(6,225)	(3,300)
700	700	-
-	55	929
677	875	-
5	6,979	78
-	-	615
<u>(1,932)</u>	<u>2,982</u>	<u>3,937</u>
2	2	99
6,027	19,820	-
(7,147)	(24,992)	-
(1,478)	(22,660)	(3,524)
(245)	(1,764)	-
-	15,824	-
<u>(2,841)</u>	<u>(13,770)</u>	<u>(3,425)</u>
<u>195</u>	<u>6,021</u>	<u>543</u>
<u>195</u>	<u>6,021</u>	<u>543</u>
(4,011)	6,487	2,766
<u>6,397</u>	<u>99,292</u>	<u>23,959</u>
<u>\$ 2,386</u>	<u>\$ 105,779</u>	<u>\$ 26,725</u>

(Continued)

CITY OF STOCKTON

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

	Enterprise		
	Water Utility	Sanitary Wastewater Utility	Stormwater Utility
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 3,090	\$ 2,257	\$ (324)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	1,318	4,144	1,074
Provision for uncollectible accounts	(7)	(141)	(13)
Self-insurance	-	-	-
Changes in assets and liabilities:			
Accounts and other receivables	(289)	(148)	(168)
Inventory of supplies	-	123	-
Loans receivable	6	18	-
Accounts payable	(499)	160	5
Accrued payroll and benefits	-	-	-
Due to other governments	75	-	-
Deposits and other liabilities	19	-	-
Compensated absences	(7)	109	26
Deferred revenue	-	5	-
Advances from other governments	-	-	(146)
Net cash provided by operating activities	<u>\$ 3,706</u>	<u>\$ 6,527</u>	<u>\$ 454</u>
NONCASH TRANSACTIONS:			
Net increase in fair value of investments	\$ 102	\$ 282	\$ 36
Deleted capital assets due to increased capitalization threshold	420	191	245
Disposed capital assets	-	-	-
Reconciliation of cash and cash equivalents to the combining statement of net assets - proprietary funds:			
Cash and cash equivalents	\$ 24,080	\$ 69,545	\$ 8,403
Cash with cash equivalents fiscal agents	-	225	-
Restricted assets:			
Cash and cash equivalents	-	-	-
Cash and investments with fiscal agents	-	16,829	-
Total cash and investments	<u>24,080</u>	<u>86,599</u>	<u>8,403</u>
Less investments reported as:			
Cash and investments with fiscal agents	-	15,689	-
Net cash and cash equivalents	<u>\$ 24,080</u>	<u>\$ 70,910</u>	<u>\$ 8,403</u>

The notes to the financial statements are an integral part of this statement.

Other	Total	Internal Service
\$ 199	\$ 5,222	\$ (4,887)
399	6,935	2,626
(4)	(165)	(228)
-	-	5,137
15	(590)	224
-	123	-
-	24	-
(68)	(402)	(462)
-	-	(761)
-	75	-
8	27	-
18	146	62
-	5	-
-	(146)	-
<u>\$ 567</u>	<u>\$ 11,254</u>	<u>\$ 1,711</u>

\$ 4	\$ 424	\$ 44
51	907	3,810
143	143	-

\$ 2,168	\$ 104,196	\$ 26,725
-	225	-
158	158	-
60	16,889	-
<u>2,386</u>	<u>121,468</u>	<u>26,725</u>
-	15,689	-
<u>\$ 2,386</u>	<u>\$ 105,779</u>	<u>\$ 26,725</u>

CITY OF STOCKTON

STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUND

JUNE 30, 2002

(Dollar amounts in thousands)

	Agency
ASSETS	
Cash and cash equivalents	\$ 9,723
Receivables:	
Accounts and other receivables	166
Due from other governments	34
	<hr/>
Total assets	<u>\$ 9,923</u>
LIABILITIES	
Accounts payable	\$ 39
Due to other governments	2,814
Deposits and other liabilities	7,070
	<hr/>
Total liabilities	<u>\$ 9,923</u>

The notes to the financial statements are an integral part of this statement.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2002

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CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The City of Stockton (City) was incorporated on July 25, 1850 under the general laws of the State of California. The City's original charter was adopted on January 15, 1889. The City operates under a Council-Manager form of government consisting of seven elected council members including the mayor and a council appointed City Manager. The City provides the following services as authorized by its charter: public safety (police, fire, paramedics, and building), sanitation (solid waste disposal, sanitary wastewater, and stormwater utilities), water utility, community development, library, parks and recreation, and general administrative services.

As required by accounting principles generally accepted in the United States of America and Governmental Accounting Standards Board (GASB) Statement 14, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each blended component unit has a June 30 year-end.

The San Joaquin Area Flood Control Agency (SJAFCA) was established by City Council resolution on May 15, 1995 and is jointly governed by the City and San Joaquin County. The City retains no on-going financial interest in nor obligation to SJAFCA.

Blended Component Units – The Redevelopment Agency of the City of Stockton (Agency) was formed to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the City. City Council members in separate session serve as the governing board of the Agency, and all accounting and administrative functions are performed by the City. The Agency is reported in the City's fund financial statements as a special revenue fund and capital projects fund, as well as in the City's government-wide financial statements.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Stockton Public Financing Authority (SPFA) was created in June 1990 and carries out lease financing for the City Sanitary Wastewater Utility, Water Utility, General Fund, Mello-Roos, and Marks-Roos districts. The SPFA governing board is the same as the City Council members. The SPFA is reported in the City's fund financial statements as a debt service fund and capital projects fund, as well as in the City's government-wide financial statements. Consistent with the National Council on Governmental Accounting (NCGA) Statement No. 5 and GASB Statement 14, capital leases between the primary government and blended component units are eliminated. The debt and assets are reported in the primary government. Accordingly, the Sanitary Wastewater Utility and Water Utility enterprise funds report the capital assets and related certificates of participation and bonds issued by the SPFA and leased to these two enterprise funds under capital leases.

Financial statements for the Agency and SPFA may be obtained at the entities' respective administration office as follows:

Redevelopment Agency of the
City of Stockton
425 North El Dorado Street
Stockton, CA 95202-1997

Stockton Public Financing Authority
City of Stockton
425 North El Dorado Street
Stockton, CA 95202-1997

Implementation of New Accounting Pronouncements – In June 1999 and June 2001, the GASB issued Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," and Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments – Omnibus," respectively. These statements provide for the most significant change in financial reporting in over twenty years and are scheduled for a phased implementation (based on size of government) starting with fiscal year ending 2002. As a part of these statements, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc.).

In June 2001, the GASB issued Statement No. 38, "Certain Financial Statement Note Disclosures." This statement modifies, adds, and deletes various note disclosure requirements. Those requirements address revenue recognition policies, actions taken in response to legal violations, debt service requirements, variable-rate debt, receivable and payable balances, interfund transactions and balances, and short-term debt.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accounting and reporting requirements of GASB 34, 37, and 38 have been implemented in these basic financial statements.

Government-wide and Fund Financial Statements – The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Revenues are recognized for utility funds based on billings rendered to customers. The City accrues revenues for services provided but not yet billed, at the end of a fiscal period.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

For this purpose, the government considers intergovernmental revenues, which are primarily grants and subventions, received as reimbursement for specific purposes or projects to be available if they are expected to be received within the upcoming year to repay interfund liabilities incurred as a result of borrowing the cash in order to pay the expenditures. Other major revenues in accordance with GASB Statement No. 22, "Accounting For Taxpayer Assessed Tax Revenues in Governmental Funds" are considered to be available if they are collected within 60 days of the end of the current fiscal period. Such revenues include sales, transient occupancy, gas, and utility user taxes, franchise fees, interest, and intergovernmental revenues, which are virtually unrestricted as to purpose of expenditure and revocable only for failure to meet prescribed compliance requirements. All other revenue items, such as business licenses and fines and penalties, are considered to be measurable and available only when received by the City.

Property taxes receivable are recorded in the fiscal year for which the tax is levied. Revenue is recognized when measurable and available. Property taxes collected in advance are recorded as deferred revenue and recognized as revenue in the year they become available. The County of San Joaquin levies, bills and collects property taxes for the City of Stockton. Property taxes paid to the City by the County within 60 days after the end of the fiscal year are "available" and are, therefore, recognized as revenue.

Secured and unsecured property taxes are levied based on the assessed value as of January 1, the lien date, of the preceding fiscal year. Secured property tax is levied on October 1 and due in two installments, on November 1 and February 1. Collection dates are December 10 and April 10, which are also the delinquent dates. At that time, delinquent accounts are assessed a penalty of 10 percent. Accounts that remain unpaid on June 30 are charged an additional 1 1/2 percent per month. Unsecured property tax is levied on July 1 and due on July 31, and has a collection date of August 31 which is also the delinquent date. The penalty percentage rates are the same as secured property tax.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred revenue is that for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City typically records deferred revenue related to uncollected estimated special assessments not yet payable and intergovernmental revenues (primarily grants and subventions) received but not earned.

On July 6, 1988, the City Council adopted (Ordinance No. 56-88C.S.) Stockton Municipal Code Sections 16-175 et seq. creating and establishing the authority for imposing and charging Public Facilities Fees. These funds are to provide for the mitigation of the impact of contemplated future development on existing public facilities and to provide for new public facilities and improvements as needed. On September 12, 1988, the City Council adopted Resolution No. 88-0616 imposing Public Facilities Fees to be paid at the time of issuance of a building permit for development. The revenue is recognized when the building permits are paid. The building division began collecting these fees on November 14, 1988.

The City reports the following major governmental funds:

The **General Fund** is the primary operating fund of the City. It accounts for normal recurring activities traditionally associated with government, which are not required to be accounted for in another fund. These activities are funded primarily by property taxes, sales and use taxes, business and utility taxes, interest and rental income, charges for services, and state grants.

Public Facilities Impact Fees Capital Projects Fund accounts for the collection of and expenditure of fees imposed as a condition of new development within the City. Impact fees have been established for each of the following types of public facilities: traffic signals, street improvements, community recreation centers, city office space, fire stations, libraries, police stations, parkland and street tree/street signs, street light in-lieu, air quality mitigation, habitat and open space conservation, infrastructure financing district 92-1 administration, and public facilities fees administration.

Capital Improvement Capital Projects Fund accounts for the acquisition, construction and improvement of capital facilities financed by grants and operating transfers from other City funds.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major enterprise funds:

Water Utility Fund accounts for activities associated with the acquisition or construction of water facilities, production, distribution and transmission of potable water to users.

Sanitary Wastewater Utility Fund accounts for activities associated with the acquisition or construction, and operation and maintenance of wastewater facilities for drainage, treatment, and disposal of sanitary wastewater.

Stormwater Utility Fund accounts for activities associated with the acquisition or construction, and operation and maintenance of stormwater facilities for drainage and disposal of stormwater wastewater.

Additionally, the City reports the following fund types:

Internal Service Funds account for the financing of goods, services, or facilities provided by one City department to other City departments on a cost-reimbursement basis.

Agency Fund accounts for assets held by the City as an agent for individuals, private organizations and/or other governmental units. The Agency Fund is custodial in nature and does not involve measurement of results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's enterprise functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Investments – Except as described below, the City pools idle cash from all funds for the purpose of maximizing interest through investment activities. Pooled investments do not include certain bond proceeds. Investments are carried at fair value with the exception of money market investments and certain nonparticipating guaranteed investment contracts, which are carried at cost. The fair value of investments is based on published market prices and quotations from major investment brokers.

The Local Agency Investment Fund (LAIF) is an external investment pool established under California State statutes. LAIF is not registered with the Securities and Exchange Commission. LAIF falls under the regulatory oversight of the State of California. Based on information obtained from the State of California, the investment in LAIF has been recorded at fair value.

Interest income on pooled investments is allocated on the basis of average daily cash balances in the General Fund, special revenue funds, debt service funds, capital projects funds, Water Utility Fund, Sanitary Wastewater Utility Fund, Stormwater Utility Fund, Solid Waste Fund, Central Parking Fund, internal service self-insurance funds, and the Agency Fund, as required by law or as directed by the City Council adopted budget. The remainder of interest income is credited to the General Fund as required by California Government Code.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents. The LAIF and money market investments are determined to be included as cash and cash equivalents. Proceeds from debt and other cash and investments held by fiscal agents by agreement are classified as restricted assets in the proprietary funds.

Receivables/Payables – Short-term interfund loan receivables and payables are reported as “due from other funds” and “due to other funds,” respectively.

Long-term interfund loan receivables are reported as “advances to other funds” and are offset equally by fund balance reservations that indicate they do not constitute expendable available resources and, therefore, are not available for appropriation. The corresponding long-term interfund loan payables are reported as “advances from other funds.”

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

“Advances to property owners” represent loans for repairs to low-income owner- and tenant-occupied households throughout the City. These loans are to be repaid over an extended period of time; therefore, the vast majority of the year-end balance will not be repaid within the next year.

Inventory of Supplies – Inventories are physically counted annually and valued at cost, on the weighted average method, which approximates market. Inventories consist of expendable supplies held on a consumption basis, wherein the cost is recorded as an expenditure at the time an item is consumed.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. In accordance with accounting principles generally accepted in the United States of America, the City capitalizes net interest cost of funds borrowed to finance the construction of fixed assets in the proprietary fund types. For the year ended June 30, 2002, capitalized interest costs equaled \$5,239 in connection with the construction in progress.

Property, plant, equipment, and infrastructure of the City is depreciated using the straight line method over the following estimated useful lives:

Building and structures	30 - 50 years
Improvements other than buildings	20 - 30 years
Machinery and equipment	5 - 30 years
Roads and streets infrastructure	50 - 65 years
Curb and gutter infrastructure	30 years
Streetlight and traffic control devices infrastructure	30 years
Transmission and distribution plant (including infrastructure such as water, sanitary wastewater and stormwater mains and laterals)	50 - 100 years

Vacation, Sick, and Earned Time Leave Pay – Accrued vacation leave is payable at 100% of accumulated hours upon separation of service. Accrued sick leave is payable at 50% of accumulated hours for all City employees upon separation of service due to death, service or disability retirement based upon terms negotiated with individual bargaining units. Police and Fire department safety and management employees, mid-management, law and unrepresented employees are also eligible for pay-off of 50% of accumulated sick leave upon termination after ten years of service. All bargaining unit employees may sell back their remaining 50% of accrued sick leave hours for additional California Public Employees' Retirement System (PERS) service credit upon retirement. Police and Fire department safety employees are eligible for pay-off of 100% of accumulated earned time (or overtime) up to one year's accrual upon retirement based on years of service. Pay-off of accumulated earned time is reportable PERS compensation.

The value of accumulated vacation, sick, and earned time is accrued, as appropriate, for all funds. With respect to obligations of the governmental fund types, the amounts are presented in the government-wide financial statements.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Capital Contributions – Connection fees are recorded as revenue in the Water Utility, Sanitary Wastewater Utility, and Stormwater Utility enterprise funds.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting for Escheat Property – The City is in compliance with the GASB Statement 21, *Accounting for Escheat Property*, and accounts for these assets in the ultimate fund (General Fund) when the assets are deemed to be escheat in accordance with California state law.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund's portion of the pool is displayed on the balance sheet (governmental funds) and the statement of net assets (proprietary funds) as "cash and cash equivalents."

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

2. CASH AND INVESTMENTS (Continued)

Deposits – At June 30, 2002, the recorded amount of the City's deposits was \$10,604; and the bank balance was \$5,421. The bank balance and carrying amount differ due to deposits in transit of \$9,514 and outstanding checks of \$4,331.

The bank balances were entirely insured or collateralized at June 30, 2002. The California Government Code requires financial institutions to secure a city's deposits, in excess of insured amounts, by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of a city's deposits. California law also allows financial institutions to secure a city's deposits by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits.

The City's deposits are categorized to give an indication of the level of custodial credit risk at year-end:

Category 1 – Insured or collateralized with securities held by the City or its agent in the City's name. The City held \$383 in Category 1 deposits at June 30, 2002.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. The City held \$5,038 Category 2 deposits at June 30, 2002.

Category 3 – Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the City's name. The City did not hold any Category 3 deposits at June 30, 2002.

Investments – California statutes and the City's investment policy authorize the investment of idle or surplus funds in the following instruments:

- Securities of the U.S. Government, or its agencies
- Small Business Administration loans
- Certificates of deposit
- Negotiable certificates of deposit
- Bankers acceptances
- Commercial paper
- Local Agency Investment Fund (LAIF) demand deposits - State pool
- Repurchase agreements (repos)
- Demand accounts - insured/collateralized
- Money market mutual funds
- Guaranteed investment contracts

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

2. CASH AND INVESTMENTS (Continued)

The City has entered into nonparticipating guaranteed investment contracts, which bear interest ranging from 4.80% to 6.57%. The investment contracts are collateralized 100% to 104% by investments, which are in compliance with the City's investment policy.

Although the City did not participate in any securities lending transactions or enter into any reverse repurchase agreements during the year, the City does have an investment in LAIF in the amount of \$58,409. The total amount invested by all public agencies in LAIF is \$47,719,552, of which 3.086% is invested in derivative financial products. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the City's portion in the pool.

The City's investments are categorized to give an indication of the level of custodial credit risk at year-end:

Category 1 – Insured or registered or securities held by the City or its agent in the City's name.

Category 2 – Uninsured and unregistered investments with the securities held by the counterparty's trust department or agent in the City's name.

Category 3 – Uninsured and unregistered investments with securities held by the counterparty or by its trust department or agent but not in the City's name.

During the year ended June 30, 2002, the City did not utilize investment types different from those categorized below.

A summary of cash and investments by such categories at June 30, 2002 is as follows:

Investment Type	Category 1	Non Categorized	Fair Value
U.S. Government securities	\$ 195,286	\$ -	\$ 195,286
Commercial paper	4,040	-	4,040
LAIF	-	58,409	58,409
Money market funds	-	39,487	39,487
Guaranteed investment contracts	-	23,560	23,560
Total investments	<u>\$ 199,326</u>	<u>\$ 121,456</u>	<u>\$ 320,782</u>

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

2. CASH AND INVESTMENTS (Continued)

Summary of GASB Statement No. 3 disclosure carrying amounts:

Deposits	\$ 10,604
Investments	<u>320,782</u>

Total cash and investments	<u>\$ 331,386</u>
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Presented in the government-wide statement of net assets	\$ 321,663
Presented in the statement of fiduciary net assets	<u>9,723</u>

Total cash and investments	<u>\$ 331,386</u>
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Restricted Cash and Investments – Certain proceeds of enterprise fund certificates of participation (COP) and bonds payable are classified as restricted cash and investments on the balance sheet because their use is limited by applicable indentures or covenants. These covenants provide that these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, may be invested in accordance with the ordinances, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions, and indentures are generally more restrictive than the City's general investment policy. In no instance have additional types of investments, not permitted by the City's general investment policy, been authorized. The major part of this restriction is for the construction or acquisition of facilities, but also includes reserves for payment of debt service as required by the bond indentures.

At June 30, 2002, restricted cash and cash equivalents/investments are as follows:

Sanitary Wastewater Utility	\$ 16,829
Central Parking District	<u>218</u>
Total	<u>\$ 17,047</u>

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

3. INTERFUND RECEIVABLES / PAYABLES

Interfund receivables and payables are as follows at June 30, 2002:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General	Other Governmental	\$ 468
Capital Improvement	Other Governmental	300
Total		<u>\$ 768</u>

Advances from/to other funds:

Receivable Fund	Payable Fund	Amount
General	Other Governmental	\$ 1,283
Capital Improvement	Public Facilities Impact Fees	5,516
	Other Governmental	6,866
	Other Enterprise	1,924
Other Governmental	Other Governmental	15,552
Total		<u>\$ 31,141</u>

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash or when there are short-term loans between funds.

"Advances to" and "advances from" balances represent loan activity between various funds. The \$1,283 is primarily loans from the General Fund to the Redevelopment Agency for various project areas. The \$5,516 loan from Capital Improvement to Public Facilities Fees is for architectural and construction costs for Police and Fire Stations. The \$6,866 from Capital Improvement to Other Governmental Funds represents loans to the Redevelopment Agency for various project areas. The \$1,924 is for loans from Capital Improvement to the Central Parking District and Swenson Golf Course. Finally, the \$15,552 represents loans in the amount of \$4,686 from the Urban Development Action Grant and \$10,866 from the Community Development Block Grant to the Redevelopment Agency to provide funds for various project areas.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

4. TRANSFERS

Transfers for the year ended June 30, 2002 are summarized as follows:

Transfers out:	Transfers In					Total
	General	Capital Improvement	Other Governmental	Other Enterprise	Internal Service	
General	\$ -	\$ 8,348	\$ 8,126	\$ 98	\$ 2,279	\$ 18,851
Public Facilities Impact Fees	-	4	117	-	19	140
Capital Improvement	-	-	200	500	7	707
Other Governmental	3,991	790	10,833	-	336	15,950
Water Utility	-	793	-	-	23	816
Sanitary Wastewater Utility	-	904	-	-	263	1,167
Stormwater Utility	-	323	-	-	7	330
Other Enterprise	660	-	3,222	-	30	3,912
Internal Service	-	649	-	-	2,651	3,300
Total	\$ 4,651	\$ 11,811	\$ 22,498	\$ 598	\$ 5,615	\$ 45,173

During the year various interfund transfers were made to finance expenditures, subsidize operating losses, and service debt. The \$18,851 General Fund transfer out includes transfers of \$8,348 to Capital Improvement for capital improvements including infrastructure improvements (\$4,100) and infrastructure reinvestment (\$2,200), and \$6,219 to the City / County Library. The transfer to the internal service funds includes transfers in the amount of \$2,273 to provide for compensated absences.

The General Fund received transfers in of \$3,991 from the Gas Tax Fund primarily for the reimbursement of qualified street repair and maintenance expenditures. In addition, the General Fund received transfers in of \$660 from the Central Parking District for the payment of debt service on the Stewart Eberhardt Building / Parking Structure.

Transfers between various Other Governmental Funds in the amount of \$10,833 consists of transfers totaling \$6,525 for the purpose of establishing debt service reserves and the principal payment of bond debt. Also, transfers in the amount of \$2,382 were made to the Redevelopment Agency for the West End Project from Community Development Block Grant and Special Grant and Loan Program funds.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002 was as follows:

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 22,243	\$ -	\$ -	\$ 22,243
Construction in progress	130,503	23,984	(5,050)	149,437
Total capital assets, not being depreciated	<u>152,746</u>	<u>23,984</u>	<u>(5,050)</u>	<u>171,680</u>
Capital assets, being depreciated:				
Infrastructure	170,783	22,702	-	193,485
Buildings and improvements	48,076	1,148	-	49,224
Machinery and equipment	32,589	3,631	(250)	35,970
Total capital assets, being depreciated	<u>251,448</u>	<u>27,481</u>	<u>(250)</u>	<u>278,679</u>
Less accumulated depreciation for:				
Infrastructure	(36,120)	(3,669)	-	(39,789)
Buildings and improvements	(33,434)	(1,318)	-	(34,752)
Machinery and equipment	(20,960)	(2,700)	250	(23,410)
Total accumulated depreciation	<u>(90,514)</u>	<u>(7,687)</u>	<u>250</u>	<u>(97,951)</u>
Total capital assets, being depreciated, net	<u>160,934</u>	<u>19,794</u>	<u>-</u>	<u>180,728</u>
Governmental activities capital assets, net	<u>\$ 313,680</u>	<u>\$ 43,778</u>	<u>\$ (5,050)</u>	<u>\$ 352,408</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 6,225	\$ 1,064	\$ -	\$ 7,289
Construction in progress	108,728	13,501	(24,304)	97,925
Total capital assets, not being depreciated	<u>114,953</u>	<u>14,565</u>	<u>(24,304)</u>	<u>105,214</u>
Capital assets, being depreciated:				
Buildings and improvements	311,049	32,116	(296)	342,869
Machinery and equipment	7,615	281	-	7,896
Total capital assets, being depreciated	<u>318,664</u>	<u>32,397</u>	<u>(296)</u>	<u>350,765</u>
Less accumulated depreciation for:				
Buildings and improvements	(96,336)	(6,605)	153	(102,788)
Machinery and equipment	(5,161)	(208)	-	(5,369)
Total accumulated depreciation	<u>(101,497)</u>	<u>(6,813)</u>	<u>153</u>	<u>(108,157)</u>
Total capital assets, being depreciated, net	<u>217,167</u>	<u>25,584</u>	<u>(143)</u>	<u>242,608</u>
Business-type activities capital assets, net	<u>\$ 332,120</u>	<u>\$ 40,149</u>	<u>\$ (24,447)</u>	<u>\$ 347,822</u>

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

5. CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	\$ 89
Public safety	328
Public works	3,728
Library	272
Parks & Recreation	644
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>2,626</u>
Total depreciation expense - governmental activities	<u>\$ 7,687</u>
Business-type activities:	
Water Utility	\$ 1,298
Sanitary Wastewater Utility	4,072
Stormwater Utility	1,074
Other business-type	<u>369</u>
Total depreciation expense - business-type activities	<u>\$ 6,813</u>

6. LONG-TERM DEBT

Bonds Payable

Special Assessment Bonds

Governmental activities – 1915 Act Special Assessment Bonds were authorized and issued to finance the improvements of special districts located within the City. There are currently eight bonds authorized and issued with interest rates ranging from 4.1% to 8.1% and final maturity in September 2027. Remaining debt service will be paid from assessments to property owners.

Business-type activities – Central Parking District Special Assessment Bonds were authorized and issued to finance the improvements of Central Parking District. There are currently three bonds authorized and issued with interest rates ranging from 4.0% to 5.5% and final maturity in July 2002. Remaining debt service will be paid from assessments to property owners.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

6. LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for special assessment bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2003	\$ 1,131	\$ 1,342	\$ 210	\$ 5
2004	1,275	1,280	-	-
2005	1,315	1,210	-	-
2006	1,415	1,136	-	-
2007	1,500	1,054	-	-
2008-2012	6,370	4,026	-	-
2013-2017	3,855	2,533	-	-
2018-2022	3,130	1,511	-	-
2023-2027	2,555	586	-	-
2028	540	18	-	-
Total	\$ 23,086	\$ 14,696	\$ 210	\$ 5

Mello-Roos Special Tax Bonds

Governmental activities – Community Facilities Districts Special Tax Bonds were authorized pursuant to the Mello-Roos Community Facilities Act of 1982, to provide funds to: 1) pay costs of the acquisition and construction of new roads, sewer and water facilities to serve property located within the City of Stockton, 2) pay certain public facilities impact fees charged by the City. There are currently seven bonds authorized and issued, five of which have interest rates ranging from 3.0% to 7.75% and two at a variable interest rate, and final maturity in September 1, 2032. The interest rate for the variable-rate bonds is determined on a weekly basis by the Remarketing Agent as stated in the official statement using the California Municipal Market Data (Cal MMD) 7-day non-amortized interest rate not to exceed 12% per annum. Remaining debt service will be paid from assessments to property owners. During the year, the City issued \$27,660 of Mello-Roos special tax bonds to finance the construction and acquisition of certain public improvements within the districts.

Business-type activities – During the year, the City issued \$6,180 of community facilities district special tax bond anticipation notes for the purposes of refunding the City's outstanding Central Parking District Refunding Bonds of 1991 and the Central Parking District Bonds of 1967, Division 4 (see further discussion regarding the refunding near the end of this note).

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

6. LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for Mello-Roos special tax bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2003	\$ 1,030	\$ 2,689	\$ -	\$ 295
2004	1,400	2,860	6,180	270
2005	1,475	2,780	-	-
2006	1,800	2,687	-	-
2007	1,905	2,580	-	-
2008-2012	11,360	10,965	-	-
2013-2017	11,370	7,003	-	-
2018-2022	3,385	4,914	-	-
2023-2027	12,335	3,354	-	-
2028-2032	6,225	1,516	-	-
2033	1,490	47	-	-
Total	\$ 53,775	\$ 41,395	\$ 6,180	\$ 565

Revenue Bonds

Governmental activities – Refunding Revenue Bonds were issued by the SPFA to purchase two series of location obligation refunding bonds and three limited obligation improvement bonds. Additionally, the City issued Mello-Roos Revenue Bonds to purchase special tax bonds and to finance the acquisition and construction of stormwater lines and pumping plants. On August 5, 1999, the SPFA issued assessment Revenue Bonds (West Eighth Street Series 1999) in the amount of \$11,610 to refund two prior issues of limited obligation improvement bonds. There are currently nine bonds authorized and issued with interest rates ranging from 3.48% to 8.1% and final maturity on September 1, 2024. Remaining debt service will be paid from revenues of the SPFA or City consisting primarily of payments received by the Authority and City as payments of assessments on the local obligation or special tax bonds. During the year, the City issued \$3,220 of revenue bonds to finance the construction and acquisition of certain public improvements within the districts.

Business-type activities – During the year, the City issued \$14,280 of revenue bonds to advance refund \$14,930 in certificates of participation (see further discussion regarding the refunding near the end of this note). The interest rates range from 3.9% to 5.5% and the final maturity is October 1, 2022.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

6. LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2003	\$ 4,445	\$ 6,224	\$ -	\$ 614
2004	4,710	5,990	440	671
2005	5,025	5,735	460	648
2006	5,325	5,461	485	623
2007	5,655	5,165	510	598
2008-2012	34,280	20,454	2,955	2,597
2013-2017	39,035	8,816	3,675	1,889
2018-2022	8,420	1,966	4,665	897
2023-2025	2,520	233	1,090	28
Total	<u>\$ 109,415</u>	<u>\$ 60,044</u>	<u>\$ 14,280</u>	<u>\$ 8,565</u>

Certificates of Participation

Governmental activities – 1999 Certificates of Participation were authorized and issued to finance a portion of the acquisition and construction of an essential services building and an adjacent public parking facility located within the City. The certificates have interest rates ranging from 4.6% to 6.0% and final maturity on August 1, 2031. The City will lease the essential services building and adjacent parking facility from the SPFA. Lease payments will be used to repay the certificates. Under the lease agreement, the City covenanted to make all rental payments to the SPFA. These rental payments will be used to service the indebtedness when it becomes due and payable. Consistent with NCGA Statement No. 5 and GASB Statement No. 14, capital leases between the primary government and blended component units are eliminated.

Business-type activities – SPFA (lessor) issued Certificates of Participation on August 1, 1993, in the amount of \$16,715, with interest rates ranging from 2.75% -5.75%, the full amount maturing serially through September 1, 2023, in annual principal installments ranging from \$190 to \$1,095.

In addition, the City issued Certificates of Participation on February 1, 1998, in the amount of \$101,650, with interest rates ranging from 4.0% to 5.2%, the full amount maturing serially through September 1, 2029, in annual principal installments ranging from \$1,395 to \$7,325.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

6. LONG-TERM DEBT (Continued)

The proceeds of the 1998 issue were used to finance the design and construction of a sewer interceptor and to make improvements and modifications to the southern industrial sewer trunk line, and to defease the 1995 Certificates of Participation issue that was to finance the design, improvements and modifications to the regional wastewater control facilities serving the citizens of the City of Stockton. The defeasance resulted in an unamortized extraordinary loss of \$6,432, which will be amortized over the life of the 1995 Certificates. Interest with respect to the 1998 Certificates of Participation began on the date of issuance. Restrictive covenants include the requirement of a reserve for debt service by providing a reserve policy provided by an outside insurer. The reserve policy is in the amount of the maximum annual debt service on the 1998 and 1993 Certificates. The Certificates will be prepaid from the net revenues of the Sanitary Wastewater Utility Fund.

The balance sheet, Enterprise-Sanitary Wastewater Utility Fund (restricted assets) includes \$16,829 cash with fiscal agent held by a fiscal agent (trustee) in charge of investment of idle funds and disbursements for the improvements and modifications of the project being financed.

Annual debt service requirements to maturity for certificates of participation are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2003	\$ 205	\$ 835	\$ 1,935	\$ 5,583
2004	210	825	2,015	5,501
2005	220	815	2,100	5,414
2006	235	805	2,195	5,322
2007	245	794	2,290	5,225
2008-2012	1,415	3,772	13,190	24,391
2013-2017	1,855	3,336	16,885	20,690
2018-2022	2,480	2,714	21,875	15,701
2023-2027	3,320	1,864	28,325	9,258
2028-2032	4,480	704	20,880	1,666
Total	\$ 14,665	\$ 16,464	\$ 111,690	\$ 98,751

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

6. LONG-TERM DEBT (Continued)

Loans Payable

The City entered into a loan with the California Department of Boating and Waterways to complete a planning report of the anticipated development of a small craft harbor facility. The loan amount is for a maximum of \$280, of which the City had drawn down \$255 as of June 30, 2002. Accumulated interest calculated at 4.5% per annum totals \$1 through June 30, 2002, and will be recognized as an expenditure when paid. Repayment of the loan is to begin on August 1, 2003, and the term of the agreement is for ten years commencing on September 3, 2001.

The City entered into two loan guarantee agreements with the U.S. Department of Housing and Urban Development to complete redevelopment projects. The loan amounts are for a maximum of \$3,000 and \$10,000 each, of which the City has drawn down \$3,000 and \$5,425, respectively, as of June 30, 2002. Accumulated interest per annum totals \$194 through June 30, 2002, and will be recognized as an expenditure when paid. Repayment of these loans began on January 23, 2001, and the terms of these agreements are for 19 and 13 years, respectively, commencing on January 3, 2001.

Annual debt service requirements to maturity of loans payable are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2003	\$ 430	\$ 464
2004	397	462
2005	425	443
2006	456	421
2007	487	398
2008-2012	2,960	1,543
2013-2017	2,575	616
2018-2020	950	130
Total	<u>\$ 8,680</u>	<u>\$ 4,477</u>

Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation benefits and unlimited sick leave. A portion of these benefits is paid to the employee upon separation of employment from the City. Both the current and long-term portion of the liability have been recorded.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

6. LONG-TERM DEBT (Continued)

Claims and Judgments

In accordance with GASB 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* and GASB No. 30 *Risk Financing Omnibus* liabilities have been accrued representing estimates of amounts to be paid for reported, as well as incurred but not reported claims. The City contracts with independent actuaries to compute the estimated liabilities of the City's self-insurance programs. The estimated liabilities include allocated loss adjustment expenses and exclude unallocated loss adjustment expenses. The effect of specific incremental claim adjustment expenses is included in the allocated loss adjustment expenses and is not specifically identifiable. The effect of salvage and subrogation are minimal. The liability for unpaid claims for general liability and workers' compensation is discounted to reflect the City's settlement rate and anticipated future investment earnings, using a discount rate of 5%. See Notes 11 and 12 for additional disclosures regarding risk management and risk pool, respectively. Based on information from the City Attorney, actuaries, and others involved with self-insurance programs, City management believes that the aggregate accrual is adequate to cover such losses. Self-insurance liabilities are broken down as follows:

	Long-Term	Current	Total
General liability	\$ 2,362	\$ 1,447	\$ 3,809
Workers' compensation	20,639	4,307	24,946
Health insurance	-	2,423	2,423
	<u>\$ 23,001</u>	<u>\$ 8,177</u>	<u>\$ 31,178</u>

Advances From Other Governments

	Water Utility	Stormwater Utility	Total
Federal Drought Relief Act	\$ 986	\$ -	\$ 986
Federal Clean Water Act	-	637	637
	<u>986</u>	<u>637</u>	<u>1,623</u>
Less current portion	-	152	152
	<u>\$ 986</u>	<u>\$ 485</u>	<u>\$ 1,471</u>

In August 1977, the City accepted a Federal Drought Relief Act grant of \$1,934 (which was later reduced by \$313) and a loan not to exceed \$1,834 for drought relief projects for the Water Utility Enterprise Fund. As of June 30, 2002, advances totaled \$986. The loan will bear interest at 5% per annum and shall be for a term not to exceed 40 years. There was no interest accruing at June 30, 2002.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

6. LONG-TERM DEBT (Continued)

In September 1992, the City accepted a Federal Clean Water Act loan not to exceed \$1,900 for programs to reduce pollutant loading from urban runoff, which will enable the City to comply with the Clean Water Act of 1987 (Stormwater Enterprise Fund). As of June 30, 2002 advances totaled \$637. The loan will bear interest at 3.1% per annum and shall be for a term not to exceed 10 years after completion of the City's three-year program. Accrued interest at June 30, 2002 was \$20.

Water Extension Agreements

These agreements represent City water lines installed by property owners and dedicated to the City. Upon connection to the City of Stockton water system, the cost of installation is to be reimbursed to the property owners by the City.

Long-term debt activity for the year ended June 30, 2002, was as follows:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Due Within One Year
Governmental activities:					
Bonds payable:					
Special Assessment Debt with Government Commitment (1915 Act Special Assessment Bonds)	\$ 24,006	\$ -	\$ (920)	\$ 23,086	\$ 1,131
Mello-Roos Special Tax Bonds	27,480	27,660	(1,365)	53,775	1,030
Revenue Bonds	111,005	3,220	(4,810)	109,415	4,445
Less deferred amounts:					
For issuance discounts	-	(604)	8	(596)	(23)
Total bonds payable	162,491	30,276	(7,087)	185,680	6,583
Certificates of participation	14,860	-	(195)	14,665	205
Loans payable	6,614	2,066	-	8,680	430
Compensated absences	19,212	649	-	19,861	8,969
Claims and judgments	26,041	27,135	(21,998)	31,178	8,177
Governmental activities long-term debt	<u>\$ 229,218</u>	<u>\$ 60,126</u>	<u>\$ (29,280)</u>	<u>\$ 260,064</u>	<u>\$ 24,364</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, \$872 of internal service funds compensated absences and \$31,178 of internal service fund claims and judgments are included in the above amounts. The remaining amounts are related to governmental funds, of which the compensated absences are generally liquidated by the General Fund.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

6. LONG-TERM DEBT (Continued)

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Due Within One Year
Business-type activities					
Bonds payable:					
Special Assessment Debt with Government Commitment (Central Parking District)	\$ 7,005	\$ -	\$ (6,795)	\$ 210	\$ 210
Mello-Roos Special Tax Bonds	-	6,180	-	6,180	-
Revenue Bonds	-	14,280	-	14,280	-
Less deferred amounts:					
For issuance discounts	-	(299)	3	(296)	(14)
For loss on defeasance	-	(755)	87	(668)	(218)
Total bonds payable	<u>7,005</u>	<u>19,406</u>	<u>(6,705)</u>	<u>19,706</u>	<u>(22)</u>
Certificates of participation	129,235	-	(17,545)	111,690	1,935
Less deferred amounts:					
For issuance discounts	(489)	-	63	(426)	(17)
For loss on defeasance	<u>6,241</u>	<u>-</u>	<u>343</u>	<u>(5,898)</u>	<u>(343)</u>
Total certificates of participation	<u>122,505</u>	<u>-</u>	<u>(17,139)</u>	<u>105,366</u>	<u>1,575</u>
Compensated absences	<u>2,510</u>	<u>189</u>	<u>-</u>	<u>2,699</u>	<u>870</u>
Advances from other governments	<u>1,812</u>	<u>-</u>	<u>(189)</u>	<u>1,623</u>	<u>152</u>
Water extension agreements	<u>11</u>	<u>-</u>	<u>-</u>	<u>11</u>	<u>11</u>
Business-type activities long-term debt	<u>\$ 133,843</u>	<u>\$ 19,595</u>	<u>\$ (24,033)</u>	<u>\$ 129,405</u>	<u>\$ 2,586</u>

Advance and Current Refundings

The City issued \$14,280 of Revenue refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$16,009 of certificates of participation. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the business-type activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$353. This amount is being netted against the new debt and amortized over the remaining life of the new debt issued, which is shorter than the life of the refunded debt. This refunding was undertaken to reduce total debt service payments over the next 20 years by \$3,284 and resulted in an economic gain of \$704.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

6. LONG-TERM DEBT (Continued)

In addition, the City issued \$6,180 of Mello-Roos refunding bonds for a current refunding of \$6,205 of special assessment debt. The refunding was undertaken to remove restrictive bond covenants associated with the special assessment debt and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$402. This amount is being netted against the new debt and amortized over the remaining life of the new debt issued, which is shorter than the life of the refunded debt. The transaction also resulted in an economic gain of \$712 and a reduction of \$2,338 in future debt service payments.

Prior Year Defeasance of Debt

In prior years, the City and the SPFA defeased certain long-term debt by placing the proceeds of new debt in irrevocable trusts to provide for all future debt service payments on the old debt until called. Accordingly, the trust account assets and liabilities for the following defeased debt issues are not included in the City's financial statements. At June 30, 2002, the outstanding balances of the bonds considered defeased were as follows:

City of Stockton Community Facilities District No. 1, Series 307 (Weston Ranch Special Tax Bonds)	\$ 5,455
City of Stockton Community Facilities District No. 1, Series 308 (Weston Ranch Special Tax Bonds)	\$ 3,050

In addition, in prior years, the City defeased certain proprietary fund debt by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the old debt until called. Accordingly, the trust account assets and liabilities for the following defeased debt issues are not included in the City's financial statements. At June 30, 2002, the outstanding balances considered defeased are as follows:

1995 Certificates of Participation - Sanitary Wastewater Utility Fund	\$ 40,185
1993 Certificates of Participation - Water Utility Fund	\$ 15,320

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

7. CONDUIT DEBT OBLIGATIONS

From time-to-time, the City has issued revenue bonds to provide financial assistance to public and private sector entities for the funding of mortgage loans, capital improvements to medical facilities and refinancing of previously existing debt deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying assets. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2002, there were six series of revenue bonds outstanding, with an aggregate principal amount payable of \$117,030.

8. NATURE AND PURPOSE OF REPORTED RESERVES AND DESIGNATIONS

Reserves are portions of the fund balance not appropriable for expenditures under the flow of current financial resources measurement focus or those portions of the fund balance/retained earnings legally segregated for specific future use. Designations are portions of the fund balance, which have been identified by management to reflect tentative plans or commitments of governmental resources.

A summary of reported reserves and designations by fund at June 30, 2002 follows:

	Governmental Activities				Total
	General	Public Facilities Fees	Capital Improvement	Other	
Reserves:					
Encumbrances	\$ 1,969	\$ 333	\$ 2,685	\$ 2,159	\$ 7,146
Advances	1,283	406	14,306	51,539	67,534
Debt service	-	-	-	34,854	34,854
Loan commitment	2,277	-	-	-	2,277
Low- and moderate-income housing	-	-	-	1,062	1,062
Endowments	-	-	-	1,383	1,383
Other items	898	399	1,406	1,946	4,649
Total reserves	<u>\$ 6,427</u>	<u>\$ 1,138</u>	<u>\$ 18,397</u>	<u>\$ 92,943</u>	<u>\$ 118,905</u>
Designations:					
Termination pay	\$ 1,690	\$ -	\$ -	\$ 132	\$ 1,822
Uncollectible receivables	1,170	-	-	-	1,170
Infrastructure	2,470	-	-	-	2,470
Economic uncertainties	3,312	-	-	-	3,312
Total designations	<u>\$ 8,642</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 132</u>	<u>\$ 8,774</u>

Encumbrances – Represent approved purchase orders, contracts, and other commitments not completed at the end of the fiscal year.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

8. NATURE AND PURPOSE OF REPORTED RESERVES AND DESIGNATIONS (Continued)

Advances to Other Funds – Council approved loans made for the following purposes: 1) loan to the Redevelopment Agency for redevelopment of blighted areas; 2) administer the public facilities fees program and to begin the construction of planned infrastructure; 3) advance for construction of facilities at Buckley Cove Marina.

Debt Service – For payment of long-term debt principal, interest and related fiscal charges.

Loan Commitment – For loan to new Emergency Medical Transportation Fund to be established July 1, 2002.

Low- and Moderate-Income Housing – Set aside for eligible low- and moderate-income family housing.

Endowments – Set aside for various endowments, of which the majority has been set aside for the arts.

Other Items – To offset miscellaneous assets that do not represent expendable available financial resources.

Termination Pay – To cover the employee separation pay and vacation sellback for all General Fund departments and for the City-County Library Fund.

Uncollectible Receivables – Set aside for delinquent solid waste receivables that the City expects to receive from the garbage companies during the year ending June 30, 2003.

Infrastructure – Set aside for future downtown revitalization activities.

Economic Uncertainties – Set aside for unforeseen budgetary requirements of the City.

9. DEFERRED COMPENSATION

The City offers its employees a deferred compensation plan. The City makes contributions up to 5.5% of the employees' base salary for select bargaining units. The total contributed during the year was \$8,499. The employee may contribute up to a combined City and employee total of 100% of their gross pay, not to exceed a total of \$11 annually for under age 50 and \$12 for age 50 and over.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

9. DEFERRED COMPENSATION (Continued)

Management of the City has determined that the City does not have fiduciary accountability since amounts accumulated by the City, under the plan, have been invested at the direction of the employees in several investment options. Accordingly, assets and activity related to the plan are excluded from the City's financial statements.

10. PENSION PLAN

Plan Description - The City contributes to the Safety Plan of the City of Stockton and the Miscellaneous Plan of the City of Stockton (Plans) which are part of the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for governmental entities in the State of California. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

All City employees are eligible to participate in PERS. Part-time employees must meet specific criteria for participation. City employees are eligible for retirement at age 50 or older with five years of service credits. Benefits are payable monthly for life in an amount equal to a certain percent of their average salary during their highest year of employment. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' comprehensive annual financial report may be obtained from their executive office of 400 P Street, Sacramento, California, 95814.

Funding Policy - Safety Plan participants are required to contribute 9% of their annual covered salary. Miscellaneous Plan participants are required to contribute 7% of their annual covered salary. As part of the city employees' benefit package, the City pays the employees' contribution. The City is required to contribute at an actuarially determined rate. The rate for Safety members was 9.579% of annual covered payroll. There were no required contributions for Miscellaneous members. The contribution requirements of the Plans' members and the City are established and may be amended by PERS.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

10. PENSION PLAN (Continued)

Annual Pension Cost - For the year ended June 30, 2002, the City's annual pension cost of \$3,940 for the Safety Plan and \$0 for the Miscellaneous Plan were equal to the City's required contributions. The required contributions were determined as part of the June 30, 1999 actuarial valuations using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary depending on age, service, and type of employment from 3.75% to 14.20%; (c) inflation of 3.50%; and (d) payroll growth of 3.75%. The actuarial value of the Plans' assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three-year period. The Plans' initial unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period as of June 30, 2001 was 22 years for the Safety Plan and 15 years for the Miscellaneous Plan.

SAFETY PLAN

Three-Year Trend Information for (Dollar Amount in Thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/02	\$ 3,940	100 %	\$ -
6/30/01	4,312	82	761
6/30/00	4,513	100	-

MISCELLANEOUS PLAN

Three-Year Trend Information for (Dollar Amount in Thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/02	\$ -	100 %	\$ -
6/30/01	-	100	-
6/30/00	1,167	100	-

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

11. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City established three internal service funds to account for its uninsured risk of loss that relate to general liability, workers' compensation, and health benefits. These funds provide coverage up to a maximum of \$1,000 for each general liability claim, \$250 for each worker's compensation claim and \$190 for each medical plan member under the health benefits program. The City purchases commercial insurance for claims in excess of the coverage provided by the fund and for all other risks of loss for worker's compensation and health benefit claims. The City joined together with other cities in 1987 to form the California Joint Powers Risk Management Authority (CJPRMA), a public entity risk pool currently operating as a risk management and insurance program for 18 member entities, which represents 74 cities and special districts. The City pays an annual premium to CJPRMA for its general liability excess insurance coverage for claims over the City's \$1,000 self-insured retention level.

The workers' compensation and health benefits programs are administered by third-party administrators who are experts in their respective fields. The general liability is self-administered by the City of Stockton.

At June 30, 2002, \$3,809, \$24,946, and \$2,423 have been accrued for general liability, workers' compensation, and health benefits insurance, respectively. All funds of the City participate in the program and make payments to the respective internal service funds based on actuarial estimates of the amounts needed to pay prior and current year claims. The City contracts with independent actuaries to compute the estimated liabilities of the City's self-insurance programs. The liability for unpaid claims for general liability and workers' compensation is discounted to reflect anticipated future investment earnings, assuming a five percent interest rate.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

11. RISK MANAGEMENT (Continued)

The claims liabilities above, reported in the respective internal service funds at June 30, 2002, are based on requirements of GASB 10 and GASB 30, which require that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. These accruals represent estimates of amounts to be paid for reported claims, and incurred but unreported claims based upon past experience, modified for current trends and information. While the ultimate amounts of losses incurred through June 30, 2002 are dependent on future developments, based upon information provided from the City Attorney, outside counsel and others involved with the administration of the programs, the City's management believes that the aggregate accrual is adequate to cover such losses. There have been no significant reductions in any of the City's insurance coverage and no settlement amounts have exceeded commercial or CJPRMA insurance coverage each of the past three years.

Reconciliation of the changes in the City's aggregate liabilities for the current and prior fiscal year:

	Liability	Workers' Compensation	Health	Total
Balance, June 30, 2000	\$ 2,766	\$ 16,999	\$ 1,706	\$ 21,471
Claims provision	2,733	6,656	12,907	22,296
Claims paid	<u>(387)</u>	<u>(4,658)</u>	<u>(12,681)</u>	<u>(17,726)</u>
Balance, June 30, 2001	5,112	18,997	1,932	26,041
Claims provision	199	11,013	15,923	27,135
Claims paid	<u>(1,502)</u>	<u>(5,064)</u>	<u>(15,432)</u>	<u>(21,998)</u>
Balance, June 30, 2002	<u>\$ 3,809</u>	<u>\$ 24,946</u>	<u>\$ 2,423</u>	<u>\$ 31,178</u>

12. RISK POOL

The City is a member of the California Joint Powers Risk Management Authority, a risk pool, described as follows:

Description of Joint Powers Authority - The Authority is comprised of 18 California member entities and is organized under a Joint Powers Agreement pursuant to the California Government Code. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses.

The Authority is dedicated to maintaining a commitment to excellence in the protection of its member entities from catastrophic liability and other financial losses through a stable, high quality, comprehensive, cost effective, long-term risk management program.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

12. RISK POOL (Continued)

Self-Insurance Programs of the Authority

General Liability Insurance - Annual deposits are paid by member entities and are adjusted retrospectively to cover costs. Members can participate with self-funded retention levels of either \$500 or \$1,000. The City's self-funded retention is currently set at \$1,000. Specific coverage includes comprehensive and general automotive liability, personal injury, contractual liability, errors and omissions and certain other coverage. Separate deposits are collected from the member cities to cover claims between \$1,000 and \$24,000. These deposits are subject to retrospective adjustments.

Property Protection - The City of Stockton participates in the All Risks Property Protection Program, which is primarily underwritten by a casualty insurance company. The annual deposits paid by participating member cities are based upon deductibility levels and are not subject to retroactive adjustments.

13. POST-RETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits through the Public Employees' Retirement System, the City provides certain health care benefits for retired employees under contractual obligations negotiated between the City and various employee bargaining units. All City management and public safety employees who receive a PERS retirement allowance upon separation are eligible for coverage under the Retiree Medical Plan at age 50. Some employees retired for disability may qualify at a younger age. Other miscellaneous employees receive a PERS retirement allowance with 15 or more years of service at age 50 or 55. Full medical benefits are continued until age 65, but with a maximum of 15 years. Such coverage includes the retiree and one dependent. At age 65, eligible retirees are covered under a Medicare Supplemental Plan, which pays secondary to Medicare. This is a lifetime benefit provided to the retired employee and his or her eligible spouse. Currently, 465 retirees meet these eligibility requirements and participate in the Plan.

The City's contributions are financed on a pay-as-you-go basis. During the year, expenditures of approximately \$4,763 were recognized for post-employment health care.

Most retirees do not contribute to the plan. Retirees who exhaust their City-paid benefit before reaching age 65 can purchase coverage until they reach age 65. Those that qualify for City paid benefits may purchase coverage for additional dependents not covered by the City's contribution to the Plan. During the year, retirees who contributed paid \$102 toward their own coverage or to cover their dependents.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

14. CONTINGENT LIABILITIES

General Liability - There are various claims and legal actions pending against the City for which no provision has been made in the financial statements. In the opinion of the City Attorney and City management, liabilities arising from these claims and legal actions, if any, will not be material to these financial statements.

The City has received federal grants for specific purposes that are subject to review and audit by the federal government. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

The City is self-insured and participates in a Public Entity Risk Pool. Details of this are covered in Notes 11 and 12.

Construction Commitments - The City is undertaking a number of capital improvement projects, the most significant of which include the following at June 30, 2002:

• Street improvements	\$ 6,230
• Regional Wastewater Control Facility	3,458
• Wastewater utility	2,324
• Traffic signals	1,617
• Parking structure & Essential Services Building	1,455
• Oak/McKinley pool reconstruction	1,055
• Training facility – Fire Company 2	1,027
• Waterfront improvements	522
• Water utility	346
• Fox Theater renovation	256

15. DEFICIT FUND BALANCE AND UNFUNDED LIABILITIES

- The Redevelopment Agency Capital Projects Fund had a deficit fund balance of \$23,987 at June 30, 2002 primarily as a result of reporting advances from other funds within the fund as opposed to being considered general long-term debt as it has been in the past. It is the intent of the City's Redevelopment Agency to fund this deficit from future tax increments and other revenues.
- The City budgets revenues and projects expenses in the General Liability Insurance Fund (internal service) based upon an analysis of the cash flows with the fund. On an accrual basis of accounting, the General Liability Insurance Fund has a long-term liability of \$2,362 and a deficit in net assets of \$1,617. The cash balance of the fund at June 30, 2002 is \$2,127. The City will fund the deficit over time by adjusting the rates paid by city funds.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

15. DEFICIT FUND BALANCE AND UNFUNDED LIABILITIES (Continued)

- The City budgets revenues and projects expenses in the Workers' Compensation Insurance Fund (internal service) based upon an analysis of the cash flows with the fund. On an accrual basis of accounting, the Workers' Compensation Insurance Fund has a long-term liability of \$20,639 and a deficit in net assets of \$18,958. The cash balance of the fund at June 30, 2002 is \$5,994. The City will fund the deficit over time by adjusting the rates paid by city funds.
- The City budgets revenues and projects expenses in the Health Benefits Fund (internal service) based upon an analysis of the cash flows with the fund. On an accrual basis of accounting, the Workers' Compensation Insurance Fund has a current liability for claims of \$2,423 and a deficit in net assets of \$1,652. The cash balance of the fund at June 30, 2002 is \$874. The City will fund the deficit over time by adjusting the rates paid by city funds.

16. OPERATING LEASES

Operating lease obligations are primarily for rental of parking facilities space. The future minimum lease payments required for those operating leases are as follows:

June 30,	Amount
2003	\$ 135
2004	102
2005	89
2006	94
2007	98
2008-2012	564
2013-2017	<u>556</u>
Total	<u>\$ 1,638</u>

17. RESTATEMENT OF BEGINNING FUND EQUITY

Governmental funds' beginning fund balances have been restated as follows:

Cumulative effect of a change in accounting principle:

1. The City reclassified some of its agency funds that did not meet the definition under GASB Statement No. 34.
2. Under GASB Statement No. 34, governments are required to report interfund advances in the fund financial statements. In the previous year, the City reported \$35,195 in advances from other funds in its general long-term debt account group that are now presented in the fund financial statements.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

17. RESTATEMENT OF BEGINNING FUND EQUITY (Continued)

Prior period adjustments:

1. The City's Redevelopment Agency omitted property held for resale from its balance sheet in the previous year in the amount of \$245.
2. In previous years, the City has recorded in its Public Facilities Impact Fees Fund deferred notes receivable as revenue even though they may not be available.

	General	Public Facilities Impact Fees	Capital Improvement	Other Governmental	Total
Fund balances, beginning of year, as originally reported	\$ 22,790	\$ 54,289	\$ 36,303	\$ 115,364	\$ 228,746
Fund equity, beginning of year, as originally reported	-	-	-	1,549	1,549
Cumulative effect of a change in accounting principle:					
Reclass of funds	13	-	-	(13)	-
Advances from other funds	-	(11,505)	-	(23,690)	(35,195)
Prior period adjustments:					
Property held for resale	-	-	-	245	245
Deferred notes receivable	-	(951)	-	-	(951)
Fund balances, beginning of year, restated	<u>\$ 22,803</u>	<u>\$ 41,833</u>	<u>\$ 36,303</u>	<u>\$ 93,455</u>	<u>\$ 194,394</u>

Proprietary funds' beginning equity has been restated as follows:

Cumulative effect of a change in accounting principle – During the process of implementing GASB Statement No. 34, the City increased its capitalization threshold for capital assets to \$5,000. As a result, \$4,717 in capital assets, which fell below this new threshold, were deleted from the City's capital assets inventory as follows:

	Water Utility	Sanitary Wastewater Utility	Stormwater Utility	Other Enterprise	Total Enterprise	Internal Service
Fund equity, beginning of year, as originally reported	\$ 62,256	\$ 200,836	\$ 40,536	\$ 12,158	\$ 315,786	\$ 10,029
Cumulative effect of a change in accounting principle:						
Increased capitalization threshold	(420)	(191)	(245)	(51)	(907)	(3,810)
Net assets, beginning of year, restated	<u>\$ 61,836</u>	<u>\$ 200,645</u>	<u>\$ 40,291</u>	<u>\$ 12,107</u>	<u>\$ 314,879</u>	<u>\$ 6,219</u>

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002 (Dollar amounts in thousands)

18. SUBSEQUENT EVENTS

On July 3, 2002, the City authorized and issued \$4,045 of Limited Obligation Improvement Bonds for the Morada North Assessment District No. 2002-01. The new bonds are being issued to finance the construction and acquisition of certain public facilities of benefit to Morada North Assessment District. The bonds are issued pursuant to the provisions of the Improvement Act of 1915, consisting of Division 10 of the Streets and Highways Code of the State of California. The interest rates range from 4.0% to 6.25% and the bonds will mature on September 2, 2027.

On July 30, 2002, the City authorized and issued \$6,300 of Community Facilities District No. 90-2 (Brookside Estates) Refunding Special Tax Bonds, Series 2002-006. The new bonds are being issued for the purpose of refunding the City's outstanding Community Facilities District No. 90-2 (Brookside Estates) Refunding Special Tax Bonds Series 006, dated June 1, 1990. The bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, constituting Section 53311, et seq. of the California Government Code. The interest rates range from 2.7% to 5.25% and the bonds will mature on August 1, 2015.



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City Council
City of Stockton
Stockton, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM,
INTERNAL CONTROL OVER COMPLIANCE, AND SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the City of Stockton, California (City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as Item 01-1.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the City, as of and for the year ended June 30, 2002, and have issued our report thereon dated November 15, 2002, which contained an explanatory paragraph discussing the adoption of new accounting principles issued by the Governmental Accounting Standards Board. Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management, and officials of applicable federal and state grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Macias, Mini & Company LLP

Certified Public Accountants

Sacramento, California
November 15, 2002



Macias, Gini & Company LLP
Certified Public Accountants and
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City Council
City of Stockton
Stockton, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the basic financial statements of the City of Stockton, California (City), as of and for the year ended June 30, 2002, and have issued our report thereon dated November 15, 2002, which contained an explanatory paragraph discussing the adoption of new accounting principles issued by the Governmental Accounting Standards Board. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a

condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, and officials of applicable federal and state grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Macias, Minic & Company LLP

Certified Public Accountants

Sacramento, California
November 15, 2002

**CITY OF STOCKTON
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2002
 (Dollar Amounts in Thousands)**

Federal Department Federal Agency Pass-Through Agency (if not direct) Program Title	CFDA No.	Grant Period	Grant Number	Receipts		Expenditures	
				Federal	Local	Federal	Local
Department of Housing and Urban Development							
Direct							
Community Development Block Grants	14.218	07/01/85-06/30/02		\$ 4,989	\$ 1,586	\$ 3,439	\$ 1,434
Emergency Shelter Grants Program	14.231	03/06/90-06/30/02		193	-	175	-
HOME Investment Partnerships Program	14.239	07/08/92-06/30/02		1,832	466	1,412	807
Economic Development Initiatives	14.246	01/01/01-06/30/02		190	-	-	-
Brownsfield Economic Development Initiatives	14.246	01/01/01-06/30/02		500	-	-	-
Total Community Development Block Grants/ Economic Development Initiative				690	-	-	-
Section 108 Loan Guarantees	14.248	01/01/01-06/30/02		-	-	1,811	-
Housing Authority of the County of San Joaquin Public Housing Drug Elimination Program P & R Public Housing Drug Elimination Program P & R	14.854 14.854	01/01/01-12/31/01 12/10/97-12/08/01	CA-024 CA-024	58 85	- -	48 114	- -
Total Public and Indian Housing Drug Elimination Program				143	-	162	-
Total Department of Housing and Urban Development				7,847	2,052	6,999	2,241
Department of Justice							
Direct							
COPS Universal Hiring Grant	16.710	04/01/95-01/31/02	95CCWX0439	31	103	18	103
COPS MORE 98	16.710	04/01/99-12/31/01	98CLWX0207	687	-	615	-
COPS MORE 2000	16.710	09/01/00-08/31/01	2000CLWX0015	15	-	55	-
Total Public Safety Partnership and Community Policing Grants				733	103	688	103

See notes to the schedule of expenditures of federal awards.

**CITY OF STOCKTON
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2002
 (Dollar Amounts in Thousands)**

Federal Department Federal Agency Pass-Through Agency (if not direct) Program Title	CFDA No.	Grant Period	Grant Number	Receipts		Expenditures	
				Federal	Local	Federal	Local
Department of Justice (Continued)							
Direct							
Local Law Enforcement Block Grants	16.592	10/01/00-09/30/01	00-LB-VX-2730	-	3	361	-
Local Law Enforcement Block Grants	16.592	10/01/01-09/30/02	01-LB-VX-2730	320	50	-	-
Total Local Law Enforcement Block Grants Program				320	53	361	-
State of California Office of Criminal Justice Planning Peacekeeper Enhancements	16.523	04/01/00-03/31/01	IP99018019	3	-	-	-
Peacekeeper Enhancements	16.523	04/01/01-03/31/02	IP00018019	231	31	360	40
Total Juvenile Accountability Incentive Block Grants				234	31	360	40
Special Unit Combating Violence Against Women	16.588	06/29/98-06/30/02	LE97018019	118	43	103	42
San Joaquin County District Attorney's Office Gracnet Grant	16.579	07/01/84-06/30/02	DC94020390	175	-	144	-
Total Department of Justice				1,580	230	1,656	185

See notes to the schedule of expenditures of federal awards.

**CITY OF STOCKTON
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2002
 (Dollar Amounts in Thousands)**

Federal Department Federal Agency Pass-Through Agency (if not direct) Program Title	CFDA No.	Grant Period	Grant Number	Receipts		Expenditures	
				Federal	Local	Federal	Local
Department of Transportation							
State Department of Transportation							
ISTEA-Fresno St. Traffic Signals	20.205	12/11/95-06/30/02	STPL-5008(018)	60	-	-	-
ISTEA-Traffic Signals Control	20.205	06/09/95-06/30/02	CML-STPL-5008(020)	-	-	754	-
ISTEA-Fresno Ave./Harbor St. Recon	20.205	10/01/96-06/30/02	STPLN-5008(025)	652	-	51	-
ISTEA-Charter Way Enhancements	20.205	04/03/00-06/30/02	STPLN-5008(028)	631	-	-	-
ISTEA-Pershing/Smith Canal Bridge	20.205	01/13/97-06/30/02	BHLS-5008(029)	-	-	-	-
ISTEA-El Dorado St. Bridge/Bianchi	20.205	01/13/97-06/30/01	BHLS-5008(030)	74	-	-	-
ISTEA-Quail Lakes Traffic Signals	20.205	03/23/93-06/30/02	STPGH-5008(033)	43	-	-	-
ISTEA-Benjamin Holt/I-5 Interchange	20.205	08/31/99-06/30/02	STPLN-5008(037)	3	-	-	-
ISTEA-Benjamin Holt/Herrndon Traffic Signal	20.205	11/15/99-06/30/01	CML-5008(043)	-	-	147	-
ISTEA-Charter Way Improvements Phase II	20.205	05/25/00-06/30/02	STPL-5008(044)	112	-	85	-
ISTEA-Weber St. Improvements	20.205	09/06/00-06/30/02	STPLER-5008(045)	-	-	225	-
ISTEA-Pershing/Acacia Traffic Signal	20.205	07/24/01-06/30/02	STPLHG-5008(049)	-	-	20	-
ISTEA-March Ln/El Dorado Traffic Signal	20.205	07/24/01-06/30/02	CML-5008(050)	-	-	-	-
ISTEA-Swain Rd Traffic Signal	20.205	08/10/01-06/30/02	CML-5008(051)	-	-	56	-
ISTEA-Swain/Pacific Ave UPRR Traffic Xing	20.205	07/24/01-06/30/02	STPLH-5008(052)	-	-	11	-
ISTEA-Surface Program Overlay	20.205	09/17/01-06/30/02	STPL-5008(054)	-	-	475	-
Total Highway Planning and Construction				1,575	-	1,824	-
State of California Office of Traffic Safety DUI/Speed Enforcement & Education Program	20.600	04/01/00-06/30/02	PT0061	81	-	65	-
Total Department of Transportation				1,656	-	1,889	-
Department of Treasury Direct Gang Resistance Education and Training	21.053	01/16/02-01/15/03	ATC020205	-	-	5	-

See notes to the schedule of expenditures of federal awards.

**CITY OF STOCKTON
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2002
 (Dollar Amounts in Thousands)**

Federal Department Federal Agency Pass-Through Agency (if not direct) Program Title	CFDA No.	Grant Period	Grant Number	Receipts		Expenditures	
				Federal	Local	Federal	Local
Environmental Protection Agency							
Direct							
Superfund - Brownfields Program	66.	03/15/96-03/15/02	V 9999446-01-0	-	-	20	-
Stockton Channel	66.	09/01/99-08/31/02	X-989370-01-0	-	-	234	-
Total Environmental Protection Agency				-	-	254	-
Department of Health and Human Services							
Direct							
Metro Med Response System	93.	01/04/02		121	-	160	-
TOTAL FEDERAL ASSISTANCE				\$ 11,204	\$ 2,282	\$ 10,963	\$ 2,426
RECONCILIATION TO THE CITY OF STOCKTON FINANCIAL STATEMENTS:							
Governmental Funds:							
General				\$ 121			
Capital Improvement				233			
Other Governmental				8,834			
Proprietary Funds:							
Internal Service				615			
Total federal grants and subsidies revenue				9,803			
Decrease in accrued federal grants and subsidies				1,401			
Receipts of federal grants and subsidies				\$ 11,204			

See notes to the schedule of expenditures of federal awards.

CITY OF STOCKTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2002

NOTE A - REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all the federal award programs of the City of Stockton, California (City) for the year ended June 30, 2002. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on this schedule. The City's reporting entity is defined in Note 1 to the City's financial statements.

The City administers certain federal awards through subrecipients. Those subrecipients are not considered part of the City's reporting entity.

NOTE B - BASIS OF ACCOUNTING

Expenditures as presented in the Schedule of Expenditures of Federal Awards are reported on the modified accrual basis of accounting. That is, expenditures are recognized when they become a demand on current available financial resources. Receipts as presented in the Schedule of Expenditures of Federal Awards are reported on the cash basis of accounting. That is, receipts are recognized when received. Federal receipts are reconciled to revenues as presented in the City's Comprehensive Annual Financial Report at the end of the Schedule of Expenditures of Federal Awards.

CITY OF STOCKTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued) FOR THE YEAR ENDED JUNE 30, 2002

NOTE C – SUBRECIPIENTS

Federal assistance provided to subrecipients is summarized as follows (dollar amounts in thousands):

<u>Program</u>	<u>CFDA#</u>	<u>Subrecipient</u>	<u>Amount</u>
Community Development Block Grant	14.218	Stockton Fair Housing	\$ 95
		Stockton – SJ Chamber of Commerce	75
		San Joaquin Delta College	47
		Ebenezer Economic Development	21
		African American Chamber of Commerce	1
Emergency Shelter Grant	14.231	Stockton Shelter for the Homeless	73
		St. Mary's	52
		Haven of Peace	23
		Women's Center	17
		Gospel Center Rescue Mission	7
Center for Positive Prevention Alternatives	3		
HOME Investment Partnerships Grant	14.239	ACLC	10
			<u>\$424</u>

NOTE D – HOUSING AND REHABILITATION PROGRAM LOANS

The City participates in Housing and Rehabilitation Programs whereby funds have been received in the current year and prior years for Housing and Rehabilitation loans. Total loans outstanding for these programs are \$31,391 at June 30, 2002. Interest earned and repayment of the loans are not refunded to the Federal Government, but are used to make additional loans.

NOTE E – OFFICE OF CRIMINAL JUSTICE PLANNING

The following schedules present only the amounts related to the Office of Criminal Justice Planning including the Peacekeepers Enhancements and the Special Unit Combating Violence Against Women and does not include all grants. These schedules reconcile the expenditures for state grant reporting purposes to the amounts recorded in the financial statements.

CITY OF STOCKTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued) FOR THE YEAR ENDED JUNE 30, 2002

NOTE E – OFFICE OF CRIMINAL JUSTICE PLANNING (Continued)

Grant No. IP00018019 – The City reported total cumulative expenditures for the period April 1, 2001 through June 30, 2002 Form 201 as follows (dollar amounts in thousands):

	Budget	Actual	Variance
Personal Services	\$ 348	\$ 348	\$ --
Operating Expenses	49	30	19
Equipment	37	34	3
	<u>\$ 434</u>	<u>\$ 412</u>	<u>\$ 22</u>

Reconciliation to the Schedule of Expenditures of Federal Awards:

	Federal	Local	Total
Reported during the year ended June 30, 2001	\$ 11	\$ 1	\$ 12
Reported during the year ended June 30, 2002	360	40	400
	<u>\$ 371</u>	<u>\$ 41</u>	<u>\$ 412</u>

Grant No. LE97018019 – The City reported total cumulative expenditures for the period July 1, 2001 through June 30, 2002 Form 201 as follows (dollar amounts in thousands):

	Budget	Actual	Variance
Personal Services	\$ 101	\$ 101	\$ --
Operating Expenses	44	44	--
	<u>\$ 145</u>	<u>\$ 145</u>	<u>\$ --</u>

Reconciliation to the Schedule of Expenditures of Federal Awards:

	Federal	Local	Total
Reported during the year ended June 30, 2002	<u>\$ 103</u>	<u>\$ 42</u>	<u>\$ 145</u>

The cumulative life to date expenditures reported on Form 201 will differ from the variance stated above due to timing differences between grant reporting periods and the fiscal year end of June 30, 2002.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2002 (Dollar Amounts in Thousands)

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

CFDA #14.239 HOME Investment Partnerships Program
CFDA #14.248 Community Development Block Grants – Section 108
Loan Guarantees

Dollar threshold used to distinguish between Type A and Type B programs:	\$300
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CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2002

Auditee qualified as low-risk auditee?

Yes

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

See Item No. 01-1 under Status of Prior Year Finding and Questioned Costs.

CITY OF STOCKTON

STATUS OF PRIOR YEAR FINDING AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2002

Item No. 01-1:

Program:

Section 108 Loan Guarantees (CFDA No. 14.248) received directly from Department of Housing and Urban Development for the grant period January 1, 2001 through June 30, 2002.

Criteria:

The Section 108 Loan Guarantees agreement (the agreement) with the Housing and Urban Development (HUD) requires the City to establish separate, identifiable custodian accounts with a financial institution whose deposits or accounts are Federally insured. These custodial accounts include a loan guarantee account and a loan repayment account. Any balances in these accounts in excess of the \$100,000 FDIC insurance limit are required to be invested in government securities. In addition, copies of the monthly statements of these accounts are required to be submitted to HUD within 15 days of month end.

Condition:

The City currently does not have such custodial accounts.

Recommendation:

We recommend the City review the agreement and ensure that the requirements contained within are being met.

Management Response:

Staff of the Housing and Redevelopment Department (HRD) spoke with the Washington, D.C. office of the Department of Housing and Urban Development (HUD) several months ago. They were informed that since all wires come in through the City's existing Bank of America account, that since the City's Accounting Division did establish separate account numbers with budgets for each activity for which the Section 108 funds would be used, and since interest on these funds would be kept separate from all funds, a separate account with a financial institution would not be required.

HRD staff will contact the Washington, D.C. office of HUD and seek written verification that our handling of these funds is acceptable. Should this effort prove unsuccessful, a separate account will be established in a financial institution and all amounts over \$100,000 will be invested in government securities.

CITY OF STOCKTON

STATUS OF PRIOR YEAR FINDING AND QUESTIONED COSTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2002

Status:

The City was not able to provide written verification during the current-year audit; therefore, this recommendation was not implemented and is still a finding in the current year.

Current Year Management Response – The City established a separate bank account on December 6, 2002 to comply with the Section 108 Loan Guarantee agreement. The account includes a sweep feature that will invest excess deposits greater than \$100,000 in government securities. Accounting will forward copies of the monthly bank statement to HUD as required on a timely basis.